Daily Report
Supplement

East Asia

FBIS-EAS-90-005-S
Monday
8 January 1990

East Asia
SUPPLEMENT

FBIS-EAS-90-005-S

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8 January 1990

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ADB President on Loans, Status of Membership

OW2412224389 Tokyo NIHON KEIZAI SHIMBUN in Japanese 17 Dec 89 Morning Edition p 7—FOR OFFICIAL USE ONLY

[Report by reporter Koike of the Asian Affairs Department on an interview with ADB President Masao Fujioka; date, place not given]

[Text] The reforms in the USSR and East Europe are also a matter of keen interest in the Asia and Pacific region. In particular, how do they affect the socialist countries? How is the USSR approaching this region after the U.S.-Soviet summit? What is the outlook of economic dynamism in this region? We asked these questions of Masao Fujioka, who just returned to Japan after working as the president of the Asian Development Bank for 8 years. Mr Fujioka just visited Vietnam and other socialist countries in Asia.

[Koike] How do you see the effects of reform in East Europe?

[Fujioka] Before talking about the effects of East European reform, it is important to note that in Asia there had already been moves for reform in the socialist countries. China started its four modernizations about 10 years ago. This was the forerunner in Asia. Vietnam and Laos also started to liberalize their economies around 2 and a half years ago. The same goes for Mongolia. This series of moves can be termed the greatest event of this century.

Of course, we cannot say that these countries have abandoned socialist ideology. However, in essence, they are moving from ideology to economic rationalism. The impact will be tremendous if reforms progress even farther in the USSR and East Europe. This will encourage Vietnam and Laos, which are seriously engaging in the liberalization of their economies. This is also true for India and Pakistan. The prospects are unclear with regard to China. However, China will also be affected by the influx of information.

[Koike] Why do you commend the economic liberalization in Vietnam?

[Fujioka] Because liberalization has actually brought about achievements. Its policy of overcoming inflation through great sacrifices, such as a high unemployment rate, is noteworthy. Reforms manifested by lowering the foreign exchange rate, the introduction of market principles, and the rationalization of government enterprises are also spectacular. The introduction of foreign investments is also going smoothly. I think the liberalization in Vietnam is authentic.

[Koike] Can we say that the conditions are ripe for resuming ADB loans to Vietnam, which were suspended after the 1978 invasion of Cambodia?

[Fujioka] I briefed the Board of Directors on returning from Vietnam. I told them that with all the things Vietnam is doing, there is no reason to refuse its request for loans. France, Sweden, Australia, and other countries agreed with me. I have already instructed the Secretariat to make preparations (for the resumption of loans). Preparations take 6 to 8 months. The actual resumption of loans will come some time in mid-1990.

[Koike] What impressions did you get from your China visit?

[Fujioka] I think China has not explained its position sufficiently. I also told Premier Li Peng that frankly. Take martial law; the negative image lingers on China. Look at the Philippines; martial law was declared during the Marcos regime, but no one hesitated to grant loans.

[Koike] Has the resumption of loans to China come up in the ADB agenda?

[Fujioka] The ADB Secretariat has to prepare for this. However, if you ask the Board of Directors, more than 50 percent oppose the resumption. China will be in more trouble in that case. I reiterated to the premier that the improvement of relations with other countries is important.

[Koike] The USSR seems to be set to approach the Asian and Pacific nations.

[Fujioka] I have the impression that since CPSU General Secretary Gorbachev defined the USSR as an Asian and Pacific country in 1986, the USSR has acted in that direction. It has already expressed its intention to become an ADB member. In the future, after it gets to participate in the General Agreement on Tariffs and Trade (GATT) as an observer and "lays the groundwork," its membership in the ADB will become more feasible.

[Koike] Will the Asia and Pacific region as a whole be able to continue with the development that it has achieved so far?

[Fujioka] I think its dynamism as the center of development in the world will not change. I believe that at present, Asia has entered the second phase of postwar economic history. The first phase saw the rise of the newly industrializing economies in the late 1960's and the industrialization of the other countries. The appreciation of the yen after the 1985 Plaza Agreement on currency adjustment brought about the second phase. This has resulted in great changes in Asia.

For instance, Japanese companies have invested profusely in Thailand and Thai industrial products are now entering the Japanese market. The market centering on Japan is expanding rapidly. A horizontal division of labor has been instituted in an extensive area for the first time in history.

In the past, Japan was the only advanced nation in Asia and it did not have friends on an equal footing. However, in the future, a grouping similar to the EC, where equal partners can talk and unite, will be possible. It should be noted that an embryo of this is beginning to take shape. The era of Asia and the Pacific tends to be taken merely as a fashionable expression. I have a feeling that, at long last, the era is really coming.

90's Previewed

TIMES Carries Series on Japan in Next Decade

First Installment

OW2312142789 Tokyo THE JAPAN TIMES in English 19 Dec 89 p 3—FOR OFFICIAL USE ONLY

["First installment" of series entitled "The Nation in the 90's" by staff writers Shinji Ito and Seekay Lan: "Will The Doors Be Opened To Foreigners?—Ability To Accept Students, Laborers From Elsewhere Seen As Test"]

[Text] In the 1990s Japan faces a challenge to its traditional identity as it seeks ways to handle a growing number of international issues, including the status of unskilled foreign labor, refugees and foreign students.

Japan's ability in confronting these issues is viewed by many as the litmus test of its ability to assume the political and social roles of a major economic power.

Over the past 10 years, Japan has attempted to ease international pressure and foster good will by increasing the number of nationally financed foreign students enrolled in programs here.

At the same time, it has tried to limit the number of refugees and unskilled foreign laborers who come here to take advantage of economic opportunities.

At present, of the 941,000 foreign residents of Japan, 670,000 are Koreans, 129,270 are Chinese, and 32,000 are from the United States. In 1988 Japan accepted 8,854 refugees, and it increased that number by 3,498 during 1989.

But in the last two decades, the Japanese Government has considered accepting unskilled foreign workers on four occasions, and each time it has opted to keep its door closed.

Internationalization

In the latest round of debate, a new factor has arisen—the call for internationalization, or the belief that a global economic power should open itself to foreign people as well as foreign products and ways.

Although both the government and the business community have reached a consensus on allowing more skilled foreign workers into Japan, there is a rift between the two concerning admitting unskilled foreign labor.

Polls show that a growing number of Japanese favor a limited acceptance of unskilled labor, but government officials say they will not act until a "clear" national consensus is reached.

A few groups, including Keizai Doyukai, a consortium of top businessmen, have proposed that Japan accept a small number of unskilled foreign workers as trainees in industries suffering from acute labor shortages, with the assurance they will return home once their jobs are complete.

The measure would be a step toward internationalization yet would prevent Japan from being flooded by foreign workers, its proponents claim.

But the government insists that the issue is settled, since it decided in June 1988 to keep out unskilled labor in the fourth such edict it has issued since 1967.

"Our policy is clear: Japan will not admit unskilled workers. This is a Cabinet decision and cannot be changed," a Labor Ministry official commented.

A revised immigration law, to take effect in June 1990, will punish employers of unskilled foreigners but force the government to accept an unlimited number of eligible skilled workers.

Workers who have lived in Japan their entire lives are skeptical about the nation's ability to fully accept foreign workers.

"Koreans are still discriminated against in jobs, marriage and schooling. They are not allowed to use credit cards or become members of country clubs because they are Koreans," said Choe Kwang-ik, deputy section chief of the International Affairs Bureau of the General Association of Korean Residents in Japan.

Even with the ban, the number of illegal foreign workers—mostly construction workers, factory hands and prostitutes from poor nations elsewhere in Asia—has swollen to 100,100, according to government estimates, with private estimates as high as 300,000.

A minor breakthrough came in May, when a governmental commission reported to the Economic Planning Agency [EPA] that a gradual opening of the unskilled labor market has its merits. For example, it could be seen as a form of foreign aid.

The EPA commission, however, does not urge the government to accept foreign workers and says it wants to remain neutral on the issue.

Proponents of the acceptance of foreign workers say Japan should share its wealth by following the example set by the U.S. and European countries, which have huge foreign populations.

But opponents argue that most of those countries have long since stopped admitting unskilled workers. They also say that accepting cheap foreign labor would hurt working conditions for the aged, hamper the progress of automation, and create crime and cultural problems in a homogenous nation.

Refugees Issue

Similarly, a consensus has not been reached yet on how to handle the great number of refugees who have come to Japan over the past few years. The issue is complicated

by the fact that although thousands of Vietnamese refugees came to Japan this year, few of them actually want to settle here.

"The first thing they ask after arriving at the International Refugee Assistance Center (in Tokyo) is whether there are ways to go to the United States, Canada or Australia. When they find out they have no other choice but Japan, then they decide to stay here," said Nguyen Thanh Binh, a Vietnamese refugee who came to Japan 12 years ago.

The Japanese Government has attempted to smooth over both the refugee and unskilled worker issues by increasing its budget for overseas development assistance and improving programs that aid foreign college students studying here.

At the beginning of the 1980s, there were only 10,428 foreign students in Japan. That number has increased to the current 25,643, with the Education Ministry aiming to top 100,000 by 2000.

"In order for the goal set by (then Prime Minister Yasuhiro) Nakasone in 1983 to be realized, they (the Education Ministry) will need to spend a lot of money and use their imagination," commented Osamu Momaka, a 35-year-old foreign exchange student studying journalism at Sophia University on an Education Ministry scholarship.

While the Education Ministry has increased its efforts to understand the needs of foreign students, it still faces the 10-year task of multiplying their numbers fourfold, a job made even more difficult by the strengthening yen and a rise in the price of land in the metropolitan areas where most foreign students are concentrated.

According to a 1988 survey of 2,085 foreign students conducted by the Tokyo Metropolitan Government, about half the students are frustrated by their situation in Japan.

Joey Regaldo, a 19-year-old Filipino in a three-year engineering program, said, "It is hard for us to be integrated into Japanese society."

Some of the frustrations listed by the survey included high prices, language difficulties, poor housing and an inability to make Japanese friends.

Hironori Toyooka, an Education Ministry spokesman concerned with foreign student exchanges, said that the ministry of the 1990s, pressured by the imposed deadline, will work primarily on finding housing in metropolitan areas for the increased number of students and will provide more financial aid to those wishing to study in Japan.

Foreign students suggest that to improve their situation here, more professors or advisers should be provided who can help them in their native language to become oriented to Japan. They also emphasized the need to improve Japanese-language programs in their own countries.

One Australian student, Eugene Lin, 28, commented that he thought the present orientation problems of foreign students stem partly from a lack of student preparation before coming to Japan.

"I have no complaints. Students should study before they come to the country. Even at the University of Australia, I had problems finding things. It's no worse here," Lin said.

Postgraduation Jobs

Another challenge for the Education Ministry is the growing number of foreigners who want to work here after graduating from Japanese schools.

"Only about 400 foreign students were hired by Japanese companies last year," said Satoru Suhara, counselor at the Asian Student Cultural Association. "In Japan there are still companies that don't promote you unless you become a naturalized Japanese citizen. Internationalization still has a long way to go."

A psychology professor at Ou University, Takao Watanabe, commented taht one major challenge in thte 1990s will be for Japanese companies, most of whom have never hired foreigners, to learn how to treat foreign employees.

The most important thing for Japanese employers is to avoid stereotyping foreigners and to realize that they each have special abilities, he said.

Even if Japan solves most of the problems if faces in its struggle toward internatinalization, other nations may not be satisfied until it accepts unskilled workers and more refugees.

A U.S. diplomat stationed here commented: "An economic superpower like Japan can no longer plead that the world should give it time to adjust."

Second Installment

OW2312155289 Tokyo THE JAPAN TIMES in English 20 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Second installment" of series entitled "The Nation in the 90's" by staff writers Toshio Jo and Takashi Kitasume: "Political Change Is on the Horizon—The Question Is, in Which Direction Will the 'Mountain' Move?"]

[Text] "In 1990 Japan is starting to move."

So claims the Japan Socialist Party [JSP], which is using this slogan in its campaign for the upcoming Lower House election.

The phrase is based on a statement, "The mountain has moved," that Chairwoman Takako Doi made after the

No. 1 opposition party triumphed in the July 23 Upper House election, allowing the opposition camp to gain control of the chamber.

Also acknowledging signs of a move toward political change are some members of the ruling Liberal-Democratic Party [LDP].

Hyosuke Kujiraoka, a senior member of the party, said, "I can say for sure that something is bound to change (in and after) next year. Things will not continue as an extension of the past anymore."

Opposition Holds Key

No one has yet predicted that a definite political reorganization will occur. It appears certain, however, that the opposition camp holds the key to Japanese politics in the 1990s.

Observers say the opposition will retain control of the Upper House for at least six years.

Even more significant, if the LDP loses its majority in the next Lower House election, expected in February, the nation could witness the first change in government control in 35 years.

Even farmers and businessmen, longtime supporters of the LDP, have begun to question the benefits of maintaining their backing of one-party government rule.

"We are starting to look at the LDP on a par with other political parties," said Masatoshi Shibata, chairman of the 150,000-member National Youth Association of Agricultural Cooperatives. "Our decision will be based purely on the policies that each party offers."

He attributed the shift in opinion to the arrival of a new generation of farmers who are more politically conscious than their parents. Shibata said younger farmers today tend to act more as individuals than as a group.

"The traditional mechanism of vote-gathering in rural farm villages, which virtually guaranteed constant support for the LDP, is eroding," he maintained.

Big business, which has consistently supported the LDP as the only reliable protector of a free-trade economy also appears to be preparing for the end of single-party rule.

"The days when the business community could afford to leave politics to the LDP alone are gone," said a top-ranking official of the powerful Japan Federation of Economic Organizations.

"In today's diversified opinion structure, we have to maintain dialogue not only with the LDP but also with the opposition camp and labor unions."

The official, who declined to be named, admits that in the long term the business community prefers a system of alternating rule by two conservative political forces to the LDP's continued monopoly of government control.

The immediate question everyone is asking is whether the current popularity of the opposition, in particular the JSP, is a fixed trend or just a fad.

Can the opposition camp continue to ride on the wave of support that culminated in the Upper House passage earlier this month of their anticonsumption-tax bills?

Satsuki Eda, leader of Shaminren (the Socialist Democratic Federation), believes the votes the JSP received in the Upper House election were not true votes of confidence in the Socialists. "They were votes temporarily deposited with the JSP as a leader of the opposition camp," he said.

The JSP collected some 20 million of the votes that were cast in the proportional representation portion of the Upper House election, compared with about 10 million in previous elections. Eda says the additional 10 million votes were cast in the expectation that the JSP will develop into a new political force that can meet the changing needs of the people at large.

In fact, Shibata of the agricultural youth association stressed that farmers voted for the JSP "not because they were interested in the JSP but because they wanted to prevent the LDP from further increasing its strength."

Voter Allegiance

Shaminren's Eda warned that the opposition will be wrong if, based on its performance in the last year or so, it believes without question that voters have already switched their allegiance from the LDP.

"What is at stake is whether or not the opposition, especially the JSP, will change and how. If it does, I believe an opposition-led government will not be an impossible dream," the outspoken Shaminren leader maintained.

The JSP and three centrist parties—Komeito, the Democratic Socialist Party and Shaminren—held a summit in Kyoto in April in a bid to iron out a policy framework for an opposition coalition.

However, discussions of a coalition have virtually stalled due to differences of views between the JSP and the centrists over such key issues as the Japanese-U.S. Security Treaty, the Self-Defense Forces and the Korean peninsula.

Political Stability

Anticipating a dramatic change in politics, LDP Diet members are discussing the idea of an LDP coalition with certain opposition parties as a realistic way out of what they term the current political instability, which has made it impossible for the country to tackle a range of issues.

Indeed, the LDP has a compeling motivation to form a coalition due to the unprecedented setback it suffered in the July Upper House election. "In order to guarantee

political stability, we'll have to consider forming a coalition," said Takujiro Hamada, an LDP leadership hopeful.

Even if the party can maintain a majority in the more-powerful Lower House in the forthcoming general election, it still will not be able to have its own way with bills and negotiations in the Diet because of the opposition's majority in the Upper House.

Besides an opposition coalition or alternating rule by two conservative political forces, several other patterns of control could emerge. But many conservative lawmakers and critics predict that the LDP will continue its present one-party rule to the end of the century or at most seek a coalition with centrist parties in the course of maintaining its power base.

Masaya Ito, a veteran political commentator, even sees the middle-of-the-road Komeito and DSP joining hands with the LDP once the February general election is over.

The DSP is situated closest to the LDP on the political spectrum. But it would not be as valuable a partner as Komeito because of its extremely weak performance in the July upper chamber election.

"A close watch will have to be maintained, especially on Komeito's behavior," Ito said. In a "weak, partial revision," he predicted, "Komeito and the DSP may eventually become the sixth and seventh factions of the LDP," though the two parties will maintain their own political platforms.

Takeshi Sasaki, professor of political science at the University to Tokyo, also believes the LDP should move in the direction of a coalition with the opposition in order to lift itself out the current political vacuum.

JSP-LDP Coalition?

He said even a JSP-LDP coalition is conceivable in the 1990s if the current abnormal situation remains unchecked and prevents the two parties from getting anything done.

Both Ito and Sasaki strongly urged the LDP to rid itself of the problems that have developed over the party's long rule, including its pork-barreling and reliance on behind-the-scenes internal dealing to make decisions.

The LDP must abandon the false belief that it will always be the ruling party, they said, arguing that the party should try harder to reform itself in a bold manner.

While the opposition camp remains divided in the face of a golden opportunity, the nation's labor circles have managed to unite under the banner of Rengo (the Japanese Trade Union Confederation).

The 8 million-strong national labor center has given itself the task of assisting in the formation of a "new political force" capable of taking over government control from the LDP.

Rengo Chairman Akira Yamagishi warned that the labor-opposition relationship could go sour if the latter fails to live up to the expectations of the nation's workers.

The JSP and other opposition parties will certainly face a tough task, trying to meet public expectations while maintaining some sort of continuity in politics, observers say.

If they fail, Shaminren's Eda said, voters who temporarily gave their votes to the JSP as a leader of the opposition camp will simply desert the party.

Third Installment

OW2312193989 Tokyo THE JAPAN TIMES in English 21 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Third installment" of series entitled "The Nation in the 90's" by staff writers Masaki Itagaki and Hisane Masaki: "U.S.-Japanese Relations at a Crossroads—Some Worry That Americans See Japan as a New 'Evil Empire'"]

[Text] As the cold war between East and West comes to a close, some Japanese fear that the U.S. may begin looking at this country as a new "evil empire."

They point to public opinion polls that reveal an increasing number of Americans believe Japan's economic power has become a greater threat to U.S. security than the military strength of the Soviet Union.

They also refer to the emergence of a group of American intellectuals—though they may still be in the minority—advocating a tougher policy stance toward Japan, which is being described as a capitalist economy where free-trade principles don't work.

These "revisionists," as they are commonly called, are gaining support in the U.S. as the trade deficit with Japan persists.

Alarming Tone

Facing what they believe will be possibly turbulent Japanese-U.S. relations in the 1990s, some Japanese opinion leaders have started voicing their concerns in a rather alarming tone.

"The atmosphere surrounding bilateral ties is similar to that which prevailed between the U.S. and the Soviet Union in the immediate years after World War II," said Yonosuke Nagai, a politics professor at Aoyama Gakuin University.

In the December issue of GAIKO FORUM, a monthly magazine published by the Foreign Ministry, Nagai pointed out that the postwar U.S. policy of "confining" the Soviet Union arose from a perception that Moscow would never change regardless of measures taken by Washington.

Josen Takahashi, chief economist at Mitsubishi Research Institute, shares Nagai's concern.

"In the past, we have often talked about "Japan bashing" by the U.S. (over economic and trade problems)," he said. "But now we can say that the U.S. is trying to confine Japan."

Takahashi believes it will not be long before calls within the U.S. for managed trade—setting specific targets for Japanese imports and exports—become specific policies.

He also questions the future of the Japanese-U.S. security treaty.

"The U.S. increasingly will view its security ties with Japan with less importance because of the easing in East-West tension," he said.

Takahashi laments that Japan is missing what he believes is the best chance to carry out drastic liberalization of markets to open the way for more foreign competition. He blamed a lack of strong political leadership.

Drastic market liberalization, he said, is possible only when the economy is expanding so as to cushion the blow to domestic industries.

Japan's current period of domestic-demand-led growth is now in its 37th month and has already reached its peak, Takahashi said, meaning it is now too late to carry out market-opening measures.

American Pressure

Further complicating Japan-U.S. relations is an increasingly nationalistic response from within Japanese political and business circles to growing American pressure for the opening of Japanese markets to foreign companies.

Shintaro Ishihara, a senior member of the ruling Liberal-Democratic Party [LDP], says in "The Japan That Can Say No," a book he co-authored with Sony Chairman Akio Morita, that American criticism of Japanese firms is tantamount to racial discrimination.

U.S. security, he claims, would be severely damaged if Japan sold its semiconductors to the Soviet Union and not to the U.S., which depends heavily on such Japanese products to produce computers needed for the country's defense.

Takahashi of the Mitsubishi Research Institute believes that Japanese-U.S. relations are irreversibly headed for a collision.

Economic and trade friction between the two countries could reach a highly critical stage by 1991.

Japan's $91 billion trade surplus with the U.S. could swell again in 1990 after dramatically shrinking in 1989, depending on exchange rates and other factors.

The one-year bilateral Structural Impediments Initiative [SII] talks aimed at removing structural barriers to trade and investment will end next summer, and the current Uruguay Round of world trade liberalization talks are to be completed at the end of 1990.

The SII talks and the Uruguay Round will be of crucial importance for both countries. The failure of either could push the U.S. further toward protectionism.

Basic Optimism

Despite the bleak predictions, however, most Japanese are optimistic about the future of Japanese-U.S. relations.

Friction will continue, but it will only be the flip side of having closer relations with the U.S., according to Seizaburo Sato, a professor of politics at the University of Tokyo.

"Is there any (economic and trade) friction between Japanese and the Soviet Union? The answer is no. That's because the two countries have no deep ties," he said.

Sato dismissed the possibility of Japan becoming a new evil empire for the U.S., saying that bilateral economic and military relations are completely different from those between the U.S. and Moscow.

"There is no economic relation between any two nations that benefits only one of them, and if Japanese-U.S. ties collapse, both would suffer," he said.

Less Friction

Shigeo Muraoka, former deputy MITI [Ministry of International Trade and Industry] minister for international affairs, predicts Japanese-U.S. friction will decrease in the 1990s.

He believes Japan's overall trade surplus will dramatically shrink, and a mechanism for resolving trade disputes at the General Agreement on Tariffs and Trade will be strengthened in the Uruguay Round.

Japan's annual trade surplus with the rest of the world will decline to an "acceptable" level of $20 billion to $30 billion by the middle of the 1990s, he said.

Direct Japanese investments overseas could eliminate $76 billion from the overall trade surplus by 1995, according to a recent MITI forecast.

As more Japanese industries move their production bases abroad, exports will decline. And Japanese imports of good produced at overseas factories will also rise, the ministry predicted.

Muruoka said the U.S. needs to cut its enormous budget deficit, and also to enhance its industrial competitiveness through better education, as well as increased investments in boosting production and research and development.

Japan, for its part, must seek continued expansion of its domestic-demand-led economy without accelerating inflation, he said.

Japan imported $38 billion more in 1988 than it did in 1987. The rise is almost equal to the import total of Sweden, Australia or South Korea.

Unilateral Moves

If trade disputes are settled more quickly and effectively through GATT, it will prevent the U.S. from resorting to unilateral measures, exemplified by trade retaliation under the so-called Super 301 clause of the toughened 1988 U.S. Omnibus Trade Act.

It is Japan's hope to refer as many of its trade conflicts with the U.S. as possible to the multilateral forum of GATT, rather than negotiating each dispute bilaterally under pressure from Washington.

Meanwhile, Japanese businessmen are braced for continued tension with the U.S. in the 1990s. But many expressed hope that the governments of the two countries will deal with problems to prevent them from getting out of control.

"Frictions arise because there is competition," a spokesman for Fujitsu said.

Japan and the U.S. are highly dependent on each other in high-tech areas, and free trade will benefit both sides, he added.

A Nissan Motor Co. spokesman said friction will remain as long as the two countries conduct brisk economic activities. He cited differences in culture, customs and the social and judicial systems.

Japan and the U.S. should resolve bilateral disputes patiently, the spokesman said, stressing that the U.S. should refrain from overly politicizing economic issues.

Well aware of the dangers of growing Japanese nationalism, the Nissan spokesman added: "Japan should say no in clear words when it is asked to do something it is unable to do, but it should never do so emotionally."

Fourth Installment

OW2312231189 Tokyo THE JAPAN TIMES in English 22 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Fourth installment" of series entitled "The Nation in the 90's" by staff writer Takashi Kitazume: "East-West Detente Puts Japanese Defense In New Light—Some Experts Say Soviet Threat Has Diminished or Vanished, But the Government Is Not Convinced"]

[Text] With tension between the two superpowers dramatically reduced, the question arises whether Japan's security policy will change in the 1990s.

Some military observers think the policy, which has been characterized as an alliance with the United States to fend off a Soviet threat, should be reassesed.

Motofumi Asai, a former career official with the Foreign Ministry and now a professor of international relations at the University of Tokyo, wants the Japanese-U.S. Security Treaty ended on the grounds that the Soviet threat no longer exists.

A primary basis of his argument is the severe economic problems of the Soviet Union.

Tadao Morimoto, a senior adviser at Toray Corporate Business Research and a leading expert on the Soviet economy, said that given the massive task of solving the present economic crisis, it is "impossible" for the government of Mikhail Gorbachev to expand the military again.

A large-scale conventional or nuclear attack would be pointless from a Soviet standpoint because of Moscow's interest in Japan's economic power, Asia said.

"At a time when the Soviet Union can no longer afford to maintain its military aggressiveness, should the U.S. continue its Cold War strategy of maintaining world order by the deterrent of its military strength?" Asai asked.

"Japan should re-examine its adherence to the security treaty with the U.S.

"We should persuade the U.S. that Western nations can also seize the present opportunity to solve their own economic problems by cutting the defense burden."

Official viewpoint

Both the Defense Agency and the Foreign Ministry maintain that Japan should not alter its security policy, because the military situation in the Far East, unlike that in Europe, remains unchanged.

Tetsuo Maeda, an expert on disarmament issues, admitted the current U.S.-Soviet arms reduction talks concern only ground forces in Europea and do not directly affect the superpower situation in the Asia-Pacific region.

Nevertheless, he argued, the government should at least realize that the trend toward arms reduction is "structural" and necessitated by economic difficulties in both the U.S. and the Soviet Union.

"Our security policy must be formulated from the viewpoint that this structural movement to end the cold war will sooner or later reach the Far East," Maeda said.

U.S. and Soviet leaders confirmed at the Malta summit in early December that agreements should be reached on conventional arms cuts in Europe and in the Strategic Arms Reduction Talks by the end of 1990.

The next target, Maeda predicted, will be a superpower naval force reduction that will involve the Asia-Pacific region.

Maintaining relations

On the other hand, Motoo Shiina, former chief of the Liberal-Democratic Party [LDP] International Bureau, said Japan's security ties with the United States must be maintained, not only for the time being but into the future.

Moscow's arms reduction proposals, he said, proves that the unified defense efforts of the Western nations have succeeded in dissuading the Soviets from an aggressive military posture.

The Western alliance should thus maintain this successful policy along with disarmament talks until the Soviets carry out their proposals, he said.

Even if the Soviet threat disappears, the security treaty with the U.S. must be maintained as a stabilizing force in Asia, both in political and psychological terms, Shiina said.

Destabilizing forces in Asia that have been restrained because of the U.S.-Soviet equilibrium in the region may come to the surface due to recent developments in U.S.-Soviet relations, he suggested. "In this sense, a militarily nonaligned Japan would be a factor that might contribute to destabilization of the situation and that would pose a psychological threat to its neighbors," he said.

Economic threat

Masao Kunihiro, formerly a special adviser to the late Prime Minister Takeo Miki and now an Upper House member affiliated with the Japan Socialist Party [JSP], said an increasing number of Americans see Japan's economic strength as a greater threat to U.S. security than Soviet forces are.

As U.S.-Soviet tension declines, Washington may begin to regard the security treaty less as a barrier to Soviet aggression and more as a way to keep Japan's potential under control, he suggested.

If the Soviet threat recedes in the Pacific, the U.S. might lose interest in the security treaty with Japan, Maeda said. "We should have a cooler attitude toward the security alliance with the U.S. and start preparing for the next stage," he said.

Continued Japanese-U.S. trade friction amid improved superpower relations may mean Japan might face tough times with both the Eastern and Western blocs, he said.

In that case, an aggressive form of Japanese nationalism may flare up that could lead to the country's isolation, as happened in the years leading up to its involvement in World War II, he added.

To avoid that, Japan should create a security framework that includes normalized relations with Moscow and less dependence on a military alliance with the U.S., Maeda stressed.

Change doubted

But Masashi Nishihara, a professor of international relations at the National Defense Academy, doubts Japanese-U.S. relations will change drastically simply because of trade friction and a reduced Soviet threat.

"The U.S. may feel threatened by Japan's technological strength, but then it will be more inclined to believe deserting Japan is dangerous to American interests," he said. "The more heavily the U.S. depends on our technology, the more Washington will think it advantageous to promote technological cooperation with Japan."

An attempt by Japan to develop high-technology weapons would create suspicion in neighboring nations and the United States, Kunihiro said, citing American reactions to the joint Japanese-U.S. effort to develop the FSX, the nation's next-generation fighter-bomber.

The country instead should seek ways to maintain its technological strength while avoiding such reactions, such as by boosting research and development for environmental protection, he said.

LDP's Shiina challenged the notion that the furor over the FSX project was a showcase example of a high-technology war between Japan and the U.S. "Rather," he said, "it was a learning process for the two countries.... Through the dispute, both Japan and the U.S. must have learned the importance of technological cooperation."

Five-Year Buildup

By the end of fiscal 1990, the Defense Agency plans to complete the current five-year buildup program and roughly attain the level of defensive capability prescribed in the 1976 National Defense Program Outline.

The agency aims to work out the next program by next summer, but it has no plans so far to change the basic concept of the 13-year-old outline. While Maeda urged the agency to take advantage of changes in East-West relations when preparing the nation's defense program, Shiina warned against becoming too swayed by the current "euphoria" of detente.

Meanwhile, Nishihara of the Defense Academy said the basic framework of Japanese-U.S. defense cooperation should be maintained but Japan should at least begin to study what options to take in case Soviet military capabilities actually decline.

"A nation's defense policy should be changed in accordance with the international situations of the times.... Rather than adhering to the old document, the agency should adopt a new defense program outline that takes recent East-West developments into consideration," he said.

Fifth Installment

OW2512090089 Tokyo THE JAPAN TIMES in English 23 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Fifth Installment" of series entitled "The Nation in the 90's" by staff writers Hisane Masaki and Takashi Kitazume: "Contributing to Stability Will Be Aim of Foreign Policy—Providing Assistance to Eastern Europe Is Seen as Key Japanese Task in Western Alliance"]

[Text] While 1989's historic easing of east-west tensions and dramatic changes in Eastern Europe have been greeted with the utmost warmth here, they are creating headaches for the makers of Japan's foreign policy.

As the world order created after World War II is apparently being replaced by a new one, the policymakers have been left to ponder what role Japan should play in the international community.

Pace a surprise

They appear, perhaps, even more surprised by the fast pace of international developments than other nations' policymakers have been.

In the postwar period of East-West confrontation, the basic direction of Japan's foreign policy toward the Soviet bloc was automatically set by its most important ally, the United States.

A top Foreign Ministry official said, "The Cold War era has not ended, but it is ending." He warned further of new uncertainties and dangers that could be created through the process of searching for a new global order.

Because both the U.S. and the Soviet Union can no longer determine what the post-Cold War era holds in store, all nations, including Japan, must make efforts to help create a new, stable order, an official said on condition that he remain anonymous.

One of the most immediate foreign policy tasks for Japan is to help economic reform efforts in Eastern Europe, according to a government source.

The source said that if Eastern European nations fail to achieve a soft landing in their tough reforms, not only Europe but the entire world will be destabilized.

By contributing to drawing Eastern Europe into the West's economic and social systems, government officials hope Japan will strengthen its stand as a member of the Western alliance.

ODA in the future

But Japan's offer of official development assistance to Eastern Europe, its first ever, needs greater understanding from both ODA officials and recipient nations, especially in other parts of Asia, where most of Japan's previous ODA has gone.

As demands for Japanese ODA in Eastern Europe are expected to rise in the future, the government is likely to find it more difficult to secure a sufficient budget for traditional aid recipients because of tight fiscal conditions.

Furthermore, Japanese citizens have yet to be persuaded that their taxes should be used to help Eastern Europe rather than to narrow the gap in the standard of living between Japan and other major industrialized democracies.

"The West, including Japan, needs to provide financial aid to Eastern European nations to save them from their current financial crisis," said political science professor Shigeru Kido of Kobe University. "Because the U.S. is saddled with a huge budget deficit, Japan's role will grow."

Kido cautioned that Western aid should be used only as a "camphor injection" designed to cushion the negative impact of ongoing reforms in Eastern Europe.

"The most important thing for the success of these reforms is that Eastern European nations improve the international competitiveness of their industries by acquiring more advanced technology," Kido said.

He and most other political and economic analysts agree that economic reforms in Eastern Europe are difficult, if not impossible, because the introduction of free market principles will cause the immediate hardships of rising unemployment and higher prices for goods. He raised questions about whether these countries are well prepared for such an ordeal.

A new key member

In addition to boosting its international profile as a key member of the Western alliance, government officials also hope Japan's support of Eastern Europe will have a favorable impact on relations between Japan and the Soviet Union.

Japanese-Soviet ties have long been soured by a disqute over four islands off the northen tip of Hokkaido that the Soviets have occupied since the end of World War II. Due to the territorial dispute, the two nations still have not signed a peace treaty.

Although historical reforms in Eastern Europe were triggered by perestroyka, Soviet President Mikhail Gorbachev's policy of revamping his nation's ailing economy could backfire on Moscow and even put Gorbachev's political career in jeopardy.

This is the worst-case scenario for Japan, which believes that the flexible Gorbachev provides the best chance for resolving the territorial issue and normalizing chilly bilateral relations.

Vice Foreign Minister Takakazu Kuriyama said in the December edition of the Gaiko Forum, a magazine issued by his ministry, that "it is still uncertain whether

Gorbachev will be able to survive his nation's serious economic and social troubles."

Gorbachev's uncertain political future, he continued, "places a big question mark on the issue of whether current East-West detente will become an established trend. Everybody in the West hopes that Gorbachev will perform well."

Taizo Watanabe, chief Foreign Ministry spokesman, said at a press conference Dec. 8 that Japan feels perestroyka is moving the Soviet Union in the "right direction" and bringing positive change to East-West relations.

The rapprochement between East and West carries with it a "realistic chance" of improvement in Japanese-Soviet ties, he added.

A change in stance

Although government officials argue that the Soviet Union should do more to melt icy bilateral ties, some political analysts contend that Japan should also soften its stand on the territorial dispute.

As U.S.-Soviet relations turn from postwar confrontation to cooperation, Japan should begin to expand economic and other ties with the Soviet Union without waiting for the return of the disputed islands, Kido said.

Japan has so far stuck to a firm policy of not separating politics and economics, refusing significant, increases in economic and trade ties with the Soviet Union until the territorial issue is resolved.

Kido, who thinks the islands should be returned eventually, said, "I have an impression that the government is using the territorial dispute as an excuse for not making any strategic commitment."

Meanwhile, most Japanese businessmen and researchers appear skeptical that East-West economic relations will improve rapidly in the years ahead. They point to the poor infrastructures and serious shortage of foreign currency reserves in Eastern bloc countries.

Nevertheless, it is undeniable that East-West relations are moving away from military confrontation toward economic cooperation, according to Tadao Morimoto, senior adviser to Toray Corporate business Research.

Moscow, he pointed out, will need Japan's money and technology in its efforts to develop and integrate its Far Eastern region into the growing Asia-Pacific economy.

COCOM a barrier

Regulations of the Coordinating Committee for Multilateral Export Control, Morimoto said, have been a major impediment to East-West trade, because government and business in Japan have become oversensitive to COCOM's rules and have restrained overall trade with the Eastern bloc.

At present, however, the attitude of the U.S.—the nation that proposed the creation of the Paris-based organization in 1949—is changing, as shown by active business approaches by U.S. firms to Eastern nations. That is the contention of Kazuo Ogawa, managing director of the Japan Association for Trade With the Soviet Union and Socialist Countries in Europe.

Morimoto hinted that COCOM itself may crumble as East-West exchanges expand in Europe after the razing of the Berlin Wall. This, he said, could pave the way for expanded Japanese high-tech exchanges with the Soviet Union, something the Soviets need to put their advanced basic technology to practical use.

According to Ogawa, however, most Japanese firms believe it is too risky to venture into an Eastern bloc nation without the Japanese government's commitment to help support the economy of the host country.

Western agreement on the need to support Eastern bloc economies will put more pressure than ever on Japan to contribute its financial resources to that goal, Ogawa said.

Experts on business with the Soviet Union and Eastern Europe agree that economic reforms now being waged by those nations will not make rapid progress in the short or medium term.

"Reconstruction of the region's economy will take at least 10 years and will experience a number of ups and downs," Ogawa said.

Politics vs. production

The current political upheaval will slow industrial production for some time, and a Western-style, market-oriented economic system will take years to take root, Ogawa predicted.

Morimoto of Toray noted that the Soviet policy of perestroyka faces serious problems on the domestic front, such as difficulties in introducing a market mechanism, resistance by the party and government officials, and low morale of workers due to shortages of everyday necessities.

"The Soviet economy is going through a crisis that will continue for at least a few more years," Morimoto forecast.

It is clear that Japan's trade with the Eastern bloc, in particular the Soviet Union, recently bottomed out from the stagnancy of the early to mid-1980s.

The widespread belief, however, is that business exchanges with the Soviet Union and Eastern Europe, either in trade or joint ventures, will not expand substantially from the current level during the coming decade, regardless of improved East-West political relations.

Observers point out that Japan, no longer the energy-consuming economy it was in the pre-oil-crisis days of

the 1970s, has little to buy from the Soviet Union, and the latter has little to sell except for its rich natural resources.

Moscow has urged Japan to invest in joint ventures with Soviet enterprises as part of its efforts to acquire business knowhow and foster export-oriented industries.

Numbers, scale limited

But contrary to Soviet expectations, such ventures set up by Japanese firms have so far been limited both in numbers and business scale. The ruble's inconvertibility and the country's inadequate business infrastructure are considered to be major impediments.

In short, Japan's business community as a whole is not interested much in the Soviet and Eastern European markets, Ogawa said. "During the rapid economic growth period and the years around the 1973 and 1979 oil crisis, business leaders were turning their eyes to Siberian natural resources. That interest is gone today," he claimed.

Toray's Morimoto said businessment will have to wait for at least five years before making large-scale approaches in the region.

The two men dismissed the widely held view that Japan's trade with the Eastern bloc has been hampered by the lack of progress on the Northern Territories issue.

"Japanese firms put their money wherever they expect profits," Ogawa said.

Sixth Installment

OW2712030089 Tokyo THE JAPAN TIMES in English 26 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Sixth Installment" of series entitled "The Nation in the 90's" by staff writer Shinji Ito: "Economists Believe the Coming Decade Will Be a Golden Era—Possibility of a Third Oil Shock Doesn't Deflate Forecasts, But No One Wants To Think About a Big Earthquake"]

[Text] Economists are depicting an even brighter future for the Japanese economy, predicting a Golden '90s comparable to the United States' prosperity in the Golden '60s.

The economy will grow by nearly 4 percent annually, doubling Japan's nominal gross national product [GNP] to $7.6 trillion by 2000, while the U.S. economy will enjoy similar but weaker growth to hit $10.4 trillion, according to the Nomura Research Institute.

By the turn of the century, Japan's per capita GNP will more than double to $59,200, 53 percent larger than that of the United States, according to the projection. In 1988, per capita GNP was 6.4 percent higher than in the U.S.

The economy's future appears rosy, especially in the early '90s. Many economists claim that adjustments and triumphs over the two oil shocks in the 1970s and other ordeals have made the economy tough enough to keep on expanding with few downturns.

In December the economy entered its 37th consecutive month of accelerating growth, led by strong consumption and investments.

On the basis of corporate investment plans, the Economic Planning Agency believes the boom will last at least until May, surpassing the 1958-61 economic expansion to become the second-longest-running expansion.

Private economists are even more optimistic, saying the expansion will last at least until 1991, overcoming a slight weakening in 1990 and possibly beating the record 57-month boom of 1965 to 1970.

After that, performance will depend on yen-dollar exchange rates, oil prices, and other factors. But more bullish analysts predict the expansion will run into 1995.

"A bigger boom still is in store for the economy," according to a recent report by the Research Institute on the National Economy, a leading private research institute. "There will be balanced, autonomous growth, and this will be the start of the Golden '90s."

Business Cycles

Many economists, and the Japanese Government as well, say the classic theory of business cycles no longer applies to Japan, which has minimized instability factors and learned to drive slowly but steadily when necessary. In the old days, recessions and even depressions were considered inevitable effects of the wild fluctuations of fixed and inventory investments that triggered downturns.

But advanced, computeraided management of inventories and investment has moderated the ups and downs, and a large part of the modern economy is made up of the service industry, which maintains very small inventories.

A government white paper released by the EPA in August says there are fewer elements in Japan today that can cause recessions.

The annual report also pointed out that the two oil shocks and the rapid appreciation of the yen in 1985-87 prompted Japanese corporations to streamline, cut costs and concentrate on high-value-added products.

In addition, Japan has taken on a course of domestic-led expansion, decreasing its dependence on export earnings and enhancing the economy's ability to rebound from shocks from the outside.

The current economic boom started in November 1986, before the much-publicized impact of the high yen.

Another sign of the economy's resilience was demonstrated during the stock crash in October 1987. Japan was the first among major markets to recover from it and head on to new highs.

"We have adapted considerably to the shocks," said Tokutaro Hirose, president of NLI Research Institute, an affiliate of Nippon Life Insurance Co. "I think the Japanese economy is now the most resilient in the world."

Note Free of Worries

Although the general economic outlook seems bright for the coming decade, the Japanese economy is not completely free from worries.

Japan's prosperity may be disturbed moderately after 1993 as it begins to feel the effects of its shift to overseas production and its massive exports of capital goods.

When the importing countries complete their factories, there will be less demand for Japanese capital goods, and industries here will face more competition.

In addition, several forecasts say oil prices will rise again in 1992 or 1993 and further trim trade revenues.

Japan imports 99.6 percent of its $19 billion annual oil consumption. Without energy resources, a wide range of activities, including agricultural production, will be impaired.

The first oil shock in 1973 caused inflation and sent the economy into its first contraction in three decades. The negative developments expected in the mid-1990s, however, will not be fatal, economists say.

Japan has learned well from the past. In the energy field, industries have boosted fuel efficiency and diversified their sources of energy, minimizing the effect of costly oil.

So when the second oil shock struck Japan in 1979, there was no panic, and the price rise expected in the mid-'90s will be "kiddy stuff" compared to the two previous shocks, according to Yuichi Shimane of the Mitsui Research Institute.

All these optimistic predictions, however, assume that the post-Cold War world will remain peaceful, on the whole, and assure Japan of free trade. Many economists say their No. 1 concern is that problems in the Middle East will lead to a sudden cutoff of oil from that source.

Other concerns include developments in Eastern Europe and the possibility that the European Community, due to be economically integrated in 1992, or the U.S. and Canada, which enjoy a free-trade zone, will become trade blocs. So says Junichi Miyake of the Japan Research Institute.

Aside from various economic and political factors, there is a lingering fear that a major earthquake will hit the Kanto region. Past cycles indicate that such an event should occur sometime in the next few decades.

Most of the many buildings and other properties in Tokyo are insured, but "when the big one comes, we actually don't know how we can pay all the insurance money," according to the president of a top insurance firm who spoke on condition of anonymity.

Shimane, the Mitsui Research Institute economist, commented: "In peacetime, what is most dreadful for the Japanese economy is a drastic change in the exchange rate. But the most dreadful thing of all is an earthquake."

"The financial world is mutually interdependent," he said. "Japan's huge investments, in my opinion, are supporting the world economy."

Seventh Installment

OW2812020189 Tokyo THE JAPAN TIMES in English 27 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Seventh Installment" of series entitled "The Nation in the 90's" by staff writers Koichiro Hidaka and Takako Takano: "Open Farm Markets Perceived as Inevitable—Japan Part of Global Trend Toward Free Trade, Agricultural Liberalization"]

[Text] The Uruguay Round of multilateral trade talks is struggling over liberalization of global farm trade before winding up the round by the end of 1990.

For Japan, decontrolling trade in agricultural products, including rice, over the next decade appears to be an irreversible trend so long as the country remains a major member of the international community.

This perspective is held not only by a number of Japanese consumer groups but also by some conservative lawmakers.

Japan has already lowered its import tariffs for chocolate and processed cheese to 10 percent, decontrolled processed tomato products and committed itself to a complete liberalization of processed beef imports by April 1990, all beef by April 1991 and orange juice by April 1992.

But the close alliance between the ruling Liberal-Democratic Party and local farmers' organizations has been an obstacle to even a phased opening of rice markets here, sources say.

Farmers' groups have traditionally wielded enormous influence over national politics, even though agricultural products constitute only 2.9 percent of the gross national product and farmers account for only 8.5 percent of all workers.

The growing demand from overseas for the liberalization of agricultural products has strengthened farmers' interest in politics, said Tomomitsu Iwakura, director general of the Policy Research Council of the LDP.

Their opposition to trade decontrol is based on such arguments as the requirements for the "national security" in food supplies—a long-standing but renewed type of nationalism—and that preserving paddy fields will protect the environment.

Nevertheles, even some LDP lawmakers and farmers are suggesting these days that Japan tackle foreign calls for liberalization by improving the agricultural industry's productivity—the main goal of the 1990s.

But these views have yet to be supported by a majority of farmers, politicians, and bureaucrats.

"Liberalization of rice is a national choice between keeping or abandoning once and for all agriculture in this nation," claimed Naoto Imagawa, manager of the Public Relations Department of the Central Union of Agricultural Cooperatives (Zenchu).

Environmental Concerns

Some regard the issue in environmental conservation terms.

About 2.9 million hectares of rice paddies take up 7.6 percent of the nation's land, but their water conservation capacity is as large as 8.1 billion tons, which is 3.4 times the amount of water retained in flood adjustment dams, Shinichiro Ishizaki of the Food Agency argued.

Takehiko Hobo, a professor at Shimane University, warned that cities and towns at the lower reaches of rivers will be damaged by rainfall if rice paddies at the upper reaches are ruined.

Opponents of complete decontrol of the agricultural market even cite some chemicals and antibiotic substances sometimes found in imported foods are reasons for opposing trade decontrol.

Some consumers' organizations share a sense of the danger of products from overseas. Kazuhisa Ito of the Japanese Consumers' Cooperation Union said low costs cannot beat safety.

Similar problems may be found in produce, analysts say, but the problem is easier to control with domestic products.

Meanwhile, Hatoko Shimizu, secretary general of the Japan Housewives' Association, claimed the nation's self-sufficiency rate, 49 percent in terms of calories in 1987, is extraordinarily low, compared with 128 percent in France as of 1983, 127 percent in the U.S. as of 1985, West Germany's 98 percent, and Italy's 79 percent.

A rate over 100 percent indicates an exportable surplus.

Behind these arguments is an apparent uneasiness on the part of some Japanese about the nation's dependence on other countries, including "close allies," for food supplies, a source said.

They still remember the "soybean shock" in the mid-1970s caused by a warning by the U.S. that it might suspend soybean exports.

However, Yoshikazu Kano, president of Research Institute on the National Economy, said liberalization will not harm Japanese rice much because there are other countries that Japan can import suitable rice from.

Kano believes a bright future exists for farmers who are good at marketing, making profits, and growing high-value-added products like flowers.

Goals for '90s

The cooperative Zenchu set a goal of cutting down rice producing expenses by 30 percent by 2000 by enlarging farm land.

Yasuhiko Yuize, a professor at Chiba University, said liberalization will give local farmers a good chance to help facilitate large-scale farming because some farmers will have to give up their land if they are unable to compete with foreign products.

By his estimate, to be competent in the world market, one rice farming household needs at least 15 hectares. But in 1988 about 95 percent of all Japanese rice farmers had less than 2 hectares.

Tatsumi Ueda, a farmer from Kagawa Prefecture, made profits through a group of 29 farming households that consolidated their land and shared labor responsibilities.

Ueda said liberalization can not be avoided. "What we can do is try the hardest to make good quality products to meet consumer needs," he said.

In order to help improve agricultural productivity, the Ministry of Agriculture, Forestry and Fisheries is encouraging development of biotechnology in order to raise Japan's self-sufficiency rate, officials said.

Budget Restraints

The total budget for the ministry, including relief measures for farmers whose products are being liberalized, is being curbed. But funds for biotechnological development have been steadily increasing in recent years.

Businesses have already been working on the assumption that trade decontrol is inevitable, and a growing number of food companies are making direct investments overseas.

A leading meatpacker, Prima Meat Packers, based in Kasumigaseki, Tokyo, established the trading house Prima Development [PDI] in Des Moines, Iowa, in August to import U.S. beef directly. PDI is currently shipping 250 head of cattle a month to Japan.

"We are going to increase the shipment 8 times within 4 years," said a spokesman for the company. This trend is expected to accelerate in the 1990s and could possibly be the answer to the inevitable liberalization.

Editorial on Expectations for 'Pacific Century'

OW2812012489 Tokyo THE JAPAN TIMES in English 27 Dec 89 p 18—FOR OFFICIAL USE ONLY

[Editorial: "Waiting for the 'Pacific Century'"]

[Text] The promised arrival of the Pacific Century flattered regional pride like no other trend of the 1980s. The notion that the center of the world might be shifting from the Atlantic to the Pacific suggested that a historic transition was under way. After centuries of reading about the achievements of distant lands and regions, it now appeared to be our turn to occupy the center of the stage of world events. This was heady stuff. No wonder we were flattered by such talk.

But was it only that—talk? A decade into this would-be revolution, many would claim that "Pacific Century" remains little more than an artful example of inspired phrasemaking. What such skeptics have yet to explain is why the sloganeers got it wrong.

To understand the process that turned the 1980s into the false dawn of the Pacific Century requires an examination of the kinds of assumptions that people on both sides of the Pacific brought to their aspirations to regional greatness. Such aspirations tell us far more about the politics of the Pacific basin than any slogan.

Perhaps the best illustration of the hopes that were at work in the initial celebrations of the Pacific Century is provided by the United States. Early in the 1980s, the volume of American trade across the Pacific surpassed that across the Atlantic for the first time in U.S. history. Commentators, especially in former President Ronald Reagan's California, seized upon this fact as further evidence of the migration of American economic energy and political clout from the "snow belt" to the "sun belt."

The growing ascendancy of California in almost every sphere of U.S. life—politics, economics, even culture—made the idea of a Pacific Century almost self-evident to observers of the American scene. The persuasiveness of their arguments was entirely grounded in economic and demographic statistics. By 1989, for example, California could boast 13 percent of the U.S. gross national product and 12 percent of its population.

California's economic success was important because it appeared to ensure that America would be a major player in the Pacific Century, or at least so many Americans thought. This was crucial for regional solidarity because it was California sunshine that allowed Americans to show so much equanimity, even complacency, about the surging growth of Japan and the newly industrializing economies of East Asia.

Quite unintentionally, the 1985 Plaza Accord unleashed new economic forces that would destroy this comforting illusion about California's economic might. The G-5 agreement hammered out in New York's Plaza Hotel resulted in a massive devaluation of the U.S. dollar against the yen and eventually sparked off an enormous Japanese buying spree in California properties and companies. The handwriting on the wall became unambiguous: Whoever was going to dominate the Pacific Century, it was not going to be the Californians. Almost overnight, American enthusiasm for the Pacific Century—as opposed to trans-Pacific trade—evaporated.

But if Americans entertained lazy illusions about California, Asians often displayed the same weakness when they hailed the idea of a Pacific Century. In recent years, for example, this country's journalism has been a wash with stories about "the Korean competition," "the threat of the NIEs" [newly-industrialized economies] and "the Promise of China." It was Asian dynamism, we were told, that was going to fuel the rapid arrival of "our age," now tactfully referred to as the "Asia-Pacific Century."

Then political instability, the old nemesis of Asian prosperity, reared its ugly head and overturned these inflated assumptions. If the success of South Korean and Philippine "people power" earlier in the decade argued that Asian democracy was on the march, events since then—in China, in Cambodia, in the Philippines, in Myanmar (formerly Burma)—have been sharp reminders that the Asian mastery of the art of good government is less than secure.

The upshot is clear. The 1980s did not give birth to the Pacific Century. When it does finally arrive, it will be the work of other hands in another decade. In the meantime, we will have to comfort ourselves with the pale warmth of a false dawn.

Article Views Country's New World Role in 90's

OW3012014489 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 pp 1, 6—FOR OFFICIAL USE ONLY

["Japan in the 1990's" column article by Waichi Sekiguchi, JAPAN ECONOMIC JOURNAL staff writer: "New Decade Brings New World Role for Japan—Global Economy Replacing Force of Arms as Framework for Peace"]

[Text] The collapse of the East-West divide that has riven the world the past 40 years has left governments from Tokyo to Tunis in a state of disequilibrium.

While few are mourning the end of an era dominated by Washington and Moscow, the bipolar standoff at least offered a measure of stability and predictability. Its absence will inevitably lead to calls for another framework to ensure global security in the 1990s.

To many observers in Japan, such security can be increasingly defined in terms of commercial ties rather than military alliances, of trade in munitions. Put another way, international economic interdependence is becoming the strongest guarantor of peace.

Japan, overflowing in capital, technology and manufacturing experties, is perhaps in a better position than any other country to contribute to that new order. But the nation also faces the daunting task of reconciling such expectations with its international image—a mercantilist nation interested mainly in promoting its own aims.

Thus, in the 1990s Japan faces the imperative of recasting its political and industrial framework so it can promote global economic interdependence.

The nation's prosperity will depend on how thoroughly it transforms itself from a potentially disturbing factor to a stabilizing force.

Only a dream?

To look around, you might not think the world is heading for economic interdependence.

Trading blocs in North America and Western Europe might well turn into members-only clubs that restrict the activity of Japan and other outsiders.

The threat of protectionism looms in the U.S. and Japan itself is still coming under fire for not importing enough from its Asian neighbors.

Further, economic interdependence would have to include the Soviet Union, China, Eastern Europe and other countries whose infrastructures and feeble economies will render them unable to seriously compete in the world market for years to come.

Yet, there are reasons for optimism.

The rapid globalization of many corporations has already made interdependence a fact of life in numerous vital industries.

And the breakup of the socialist bloc offers unparalleled opportunities for Japan and other developed nations to insinuate themselves into the economies of those nations.

Finally, even the trade friction with the U.S. belies the increasingly intimate economic relations between the U.S. and Japan.

The following is a rundown on the prospects for Japan's economic interdependence with the U.S., the Soviet Union, and its own neighbors in Asia.

The U.S.: A new set of rules

The Malta summit between Soviet leader Mikhail Gorbachev and U.S. President George Bush punctuated the fundamental changes occuring in global politics, forcing Japan to rethink its national security and foreign policies.

If tension between Washington and Moscow in the Far East decreases, Japan's importance as the key Pacific ally of the U.S. is likely to diminish with it.

If the U.S. chooses to militarily disengage from the Asia-Pacific region, there will be pressure within Japan to assert its independence from Washington.

The U.S. magazine Business Week reported in its Dec. 18 issue that "a majority of Japanese think they should rely less on the U.S. for military security," citing the result of its own survey of 1,000 adults in mid-November.

However, most opinion leaders in Japan want the country to maintain the Japan-U.S. Security Treaty and, if anything, strengthen its ties with Washington as long as there remains tension on the Korean peninsula, China and in other parts of Asia.

"After the Cold War security system is finished, the security treaty will become even more beneficial for Japan than for the U.S.," says Hisashi Owada, deputy ministry for foreign affairs of the Foreign Ministry.

If the U.S. succeeds in reducing its $170 billion military budget for Europe, "it may no longer have to depend on Japan to heavily purchase government bonds to finance the budget deficit," Takehiko Kamo, a professor of international politics at the University of Tokyo, says.

Some critics contend that Japan and the U.S. are headed for even more trying times in the 1990s, as indicated by the difficulties arising from the ongoing talks to remove structural impediments to trade in both countries.

But Makoto Kuroda, former vice minister for international affairs of the Ministry of International Trade and Industry, sees it differently.

Such conflict, he says, "can also be explained as a reflection of the increased economic interdependence between the two countries."

"When you begin sleeping in a double bed," he says, "you tend to complain about one another's snoring and tossing."

As long as Japan makes efforts to respond to "proposals by its close friend," there won't be serious problems in relations with the U.S., he added.

Hideaki Kase, a foreign policy commentator, agrees. "Most states in the U.S. have trade representative offices in Tokyo and are eager to deal with Japan," he says. "Not every American objects to Japan."

The USSR: An 'alternative market'

The end of the East-West confrontation has also brought about a chance for Japan to reassess its relations with socialist countries, especially the Soviet Union.

In order to stabilize relations with the USSR, many business executives say Japan should take a major role in assisting Soviet economic reform.

Keiji Hirano, director and general manager of Tokyo Engineering Corp., says, "Interdependence with the

Soviets will be the largest contributor to Japan's security. The Soviet Union needs Japan's economic cooperation."

Adds Susumu Yoshida, a managing director of Nissho Iwai corp., "If Japan can seek an alternative market in the Soviet Union, it will help rectify the trade imbalance with the U.S.

"The Soviet Union, as well as China, has great potential as market for Japan, though it will take several years to improve their economic infrastructure such as telephone networks," Yoshida says.

The biggest obstacle in relations with Moscow is the issue of the Northern Territories, the islands near Hokkaido whose occupation by Soviet troops has kept bilateral trade in a semifreeze for years.

Gorbachev is expected to visit Tokyo in 1991. Yoshida and many other business leaders expect that his visit may lead to a resolution of the issue in the 1990s.

Japan is also expected to step up its economic and technological assistance to developing countries, mainly in Asia.

Asia Pacific: The New World

Tokyo's official development assistance in 1989 exceeds $10 billion, making Japan a major power in terms of overseas aid.

But Hirohiko Okumura, director and chief economist at Nomura Research Institute, complains that Japan lacks a clear principle in its economic assistance and is not using it to make the country a stabilizing force in the world economy.

Although Tokyo will provide $150 million to Poland and Hungary under the leadership of the U.S., "it should offer such assistance of its own accord, not under prodding by Washington," says Okumura.

Furthermore, since the U.S. and Canada implemented their free trade pact in 1989 and the European Community will integrate its markets in 1992, the Asia-Pacific region is expected to further grow in importance for Japan.

"Japan should organize a similar economic sphere in the Asia-Pacific region by using its economic clout—basically its buying power," says Tokyo University's Kamo.

With U.S. economic influence relatively decreasing in the Pacific, a new economic magnet that absorbs products and leads the region's economic expansion is now required, says James C. Abegglen, president of Asia Advisory Service, a consulting firm in Tokyo.

Although Japan seems reluctant to take such overt initiatives due to the lingering memories of World War II, it has a responsibility to buy more from Asian countries, says Abegglen.

Many Japanese agree that such regional integration will continue in the 1990s. Says the Foreign Ministry's Owada, "An increasing number of global issues such as environmental hazards, overpopulation and disease will prevent protectionism in the 1990s because no single country can solve these problems by itself."

Restructuring Japan

In order to become a main player in the international arena, Japan will have to take a good look at itself.

Although some government officials complain that the U.S. has been too aggressive in trade negotiations, "clearly Japan has to change some of its business practices in dealing with Western nations," says Kyoto University Economics Professor Takamitsu Sawa.

While measures are being taken by Tokyo to change the nation's industrial structure, Sawa attributes the slowness of the change to the infancy of Japanese democracy and the weakness of individualism here.

The Japanese are so bound to their families, companies and communities that they cannot easily change their habits, even if they know they have to, says Kinji Yajima, director of the Institute for International Affirs.

However, economists predict that such patterns will be remolded in the 1990s by the internal and external interaction of people—the decreasing number of extended families, increasing career mobility and the influx of foreign workers.

Nobuyoshi Namiki, a professor of economics at Nagoya city University, believes that especially young people will start behaving in a more individualistic manner.

Also, the increase of foreign workers in Japanese companies will cut the traditional closed linkages of employees.

"As long as the labor shortage and wage gap exist, foreign workers will flow into Japan," says Sawa.

Namiki and other economists predict that when such individualism arrives in Japan in the 1990s, the ruling Liberal Democratic Party will face difficulty in representing such diverse interests, and Japan's de facto single-party system will come to an end.

Calendar for the 1990s

1990—U.S.-Soviet summit meeting
—Off-year elections in the U.S.
—EC and EFTA to make European economic Space agreement
—GATT Uruguay Round to end
1991—New Japanese midterm defense buildup program to start
—Mikhail Gorbachev to visit Tokyo
—50th anniversary of Pearl Harbor
—INF disarmament program to end
1992—Integration of the European Community markets
—Olympic Games in Barcelona, Spain

—U.S. presidential election
1993—Gramm-Rudman budget-balancing to end in the U.S.
—New Kansai International Airport to start operation
—Channel tunnel to open
1994—Japan to put earth observation satellite, ADEOS, into operation
1995—50th anniversary of the atomic bombing of Hiroshima and Nagasaki
—French presidential election
—50th anniversary of the founding of the United Nations
1996—U.S. presidential election
—FSX jet fighters to be deployed
1997—Hong Kong to be returned to China
1998—U.S. and Canada to abolish all tariffs based on free trade pact
1999—U.S. to return the Panama Canal

Disagreements Hamper JSP Building Momentum

OW3012005889 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Japan in the 1990's" column; article by Konosuke Kuwabara, JAPAN ECONOMIC JOURNAL staff writer: "Can Socialist Party Build on Momentum of 1989?"]

[Text] For the Japan Socialist Party [JSP], the testing time is at hand.

This year, the nation's second largest party, led by the charismatic Takako Doi, has made more gains than at any time in the postwar period.

But maintaining that momentum during the 1990s will be a tough task indeed, according to analysts within and outside the party.

Part of the problem is that the Socialists are far from agreement on how to accomplish that task.

"The JSP should change its name to the Social Democratic Party and it should review its current political platform, which was mapped out in 1986, to resolve ideological gaps between the JSP and other major opposition parties," says Makoto Tanabe, 67. An influential JSP official who chairs seven party committees, Tanabe leads the JSP's "Suiyo-kai" group of about 30 Diet members known for their pragmatism.

Tanabe, a Lower House member from Gunma Prefecture since 1960, is just one of several senior party members pondering strategies designed to make the party into a viable opposition to the ruling Liberal Democratic Party.

"In the 1990s, the JSP must become an alternative party to the LDP so that a two-party system can begin in Japan," Tanabe says. "We are going to break the traditional way of policy-making based on the Nagatacho (LDP)-Kasumigaseki (bureaucrats)-Otemachi (big corporations) relationship."

Tanabe and other JSP members say a two-party system could evolve in several ways. For example, he says, some LDP Diet members who oppose politics-as-usual may leave the party, enabling the JSP to join hands with a part of the LDP.

Many party members also are looking to join forces with other opposition parties—the Democratic Socialist Party, the United Socialist Democratic Federation and the Komei Party. They also are looking for closer ties with the Japanese Private Sector Trade Union (Rengo), the largest labor union group with some 8 million members.

Rengo's present stance is to equally support each of the four opposition parties. But to use its power more effectively, Tanabe stresses the need to join hands as soon as possible with this emerging political force.

To Tanabe and some other JSP members, joining with some opposition parties may be the only way to secure control of the Diet. Currently, the JSP has 85 Lower House members and 67 in the Upper House.

A coalition would also likely reduce the influence within the party of left-wing politicians, who are seen as out-of-step with current national and global realities.

For the Socialists, a key question is whether Chairwoman Doi will continue to head the party throughout the 1990s.

While Doi is popular, she lacks a strong power base within the JSP where she is seen as a relative newcomer. Doi, once a lecturer at Doshisha University, was first elected to the Lower House in 1969.

The leadership question may be answered in the forthcoming election, which should test whether the JSP's victories in last summer's Upper House elections were really the result of pro-JSP, and not simply anti-LDP, votes.

Clearly, the JSP has not yet become an alternative party to the LDP, according to Ikuo Kabashima, an associate professor at Tsukuba University.

However, Tanabe is confident that that situation will change in the 1990s. Says he, "With its present pork-barrel politics, the LDP will not be able to survive the next decade."

Japan-U.S. Defense Balance Likely To Shift

OW2812093089 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 p 4—FOR OFFICIAL USE ONLY

["Japan in the 1990's" column article by Yuko Inoue, JAPAN ECONOMIC JOURNAL staff writer: "Tokyo Expected To Seek Greater Say in Defense"]

[Text] Japan, which has long had its defense policy shaped by the Pentagon in the U.S., will be defining more of its own strategic interests in the coming years.

That at least is the view of some analysts here, who see changes ahead in the bilateral relationship, including a reevaluation of the Japan-U.S. Security Treaty, as East-West tensions relax and a budget-strapped Washington leans toward cutting defense spending.

Many politicians and scholars even envision the establishment of a multilateral and comprehensive security system in Asia, involving the U.S., the Soviet Union, China, and other Asian nations, to supplement a weakened bilateral security pact.

One described the concept as an Asian version of the Conference on Security and Cooperation in Europe, which grew out of the 1975 Helsinki Accords. The conference provides a forum for multilateral negotiations on arms control and the exchange of military data between NATO and Warsaw Pact forces.

To be certain, many others in and outside the Government remain skeptical about Russian diplomatic initiatives and believe future arms control agreements will have little impact on the Asia/Pacific region.

But events have become so unpredictable that few can discount the possibility that the Far East eventually will be caught up in the whirlpool of change that has engulfed Europe.

Already, the Russians have pledged to reduce their Far East forces by 120,000. And President Mikhail Gorbachev could further alter the equation by doing something bold when he visits Tokyo in 1991—such as pledging to return the Northern Territories, the islands off Hokkaido whose occupation is the most contentious issue between Tokyo and Moscow.

Friendship symbol

For Asian nations, the Japan-U.S. Security Treaty has been a reassuring check on Japanese rearmament. Under the pact, signed in 1952 and revised in 1960, the U.S. has taken the leadership role in defending Japan, and Tokyo has virtually accepted a junior role in the alliance.

Yet, the U.S. Congress has been reassessing the cost and necessity of deploying American forces in Japan, charging that Tokyo has enjoyed a free ride up to now.

The new detente will certainly lead the U.S. to rethink its strategic designs on the region, as the rationale for its costly defense umbrella weakens, some analysts say. And this could lead Japan to exert more strategic influence in Asia that it has since World War II.

THE WASHINGTON POST recently reported that a military source in the capital said the Defense Department is studying the possibility of sharply reducing American forces in Japan, South Korea and the Philippines.

In that case, the security treaty would no longer function as an exclusively military alliance; more emphasis would be placed on economic cooperation and symbolic aspects of the Japan-U.S. friendship, says Makoto Momoi, a defense analyst.

Ultimately, Japan must have greater say in the alliance, says Takeshi Sasaki, a professor at the University of Tokyo.

"The pact is too weighted against Japan," said Sasaki. "At the very least, it should require the U.S. to consult Japan prior to any military action."

Motofumi Asai, a University of Tokyo professor, says Japan should terminate the security pact altogether and shift its diplomatic attention from the U.S. to Asia.

"Now that the potential Soviet military threat has diminished, any sharp increase in Japan's defense spending within the framework of the Japan-U.S. security pact would be the most destabilizing factor for detente in Asia," says Asia, formerly a career diplomat.

Budget Battle

Some members of the Japan Socialist Party, the country's leading opposition group, say the Japan-U.S. security pact will lose its raison d'etre.

Though the party has retreated from its outright opposition to the pact, it will oppose the more than 6% increase in defense spending planned for next year, to about Y4.2 trillion, even though that figure will fall below 1% of GNP for the first time in years.

"The spending should be at least held to the Fiscal 1989 level of Y3,920 billion," said Shigeru Itoh, chairman of the party's policy board.

Calculated under the NATO formula, Japan's defense budget is now the third largest in the world, though that figure is deceptive since it is computed in dollar terms at a time when the yen is so strong.

Tokyo's defense policy will become clearer in the middle of 1990, when the Defense Agency submits to the Diet the post "midterm defense buildup program" to start in Fiscal 1991.

Still Weak?

Some analysts claim Japan's defense ability is still weak, citing that some 41% of the budget goes to salaries, while

only 28% is allocated for equipment purchases and the rest to the upkeep of U.S. bases and other support services.

At present, 50,600 American soldiers are stationed in Japan, for whom the Japanese Government pays Y262.4 billion—four times the per capita cost that West Germany pays for American troops on its soil.

Also, the analysts say Japan's Self-Defense Forces are too strategically integrated with U.S. troops, lacking the ability to defend Japan on their own.

Yet, many signs point to even greater integration of the two countries' military forces, indicating that close Japan-U.S. defense ties will continue in the 1990s, whatever the fate of the security pact.

"The relationship," says defense analyst Momoi, "is like a thick, leather family bible for those who stop going to church on Sundays."

Country Remains in Search of New Role in Asia

OW3012004389 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 p 5—FOR OFFICIAL USE ONLY

["Japan in the 1990's" column article by Konosuke Kuwabara, JAPAN ECONOMIC JOURNAL staff writer: "Japan Remains in Search of Its New Role in Asia"]

[Text] Prosperity, lapping at the shores of Asia Pacific nations, promises to keep the region economically afloat throughout the 1990s.

But Japan is still groping cautiously to find its place in the scheme of things, saddled with its dual role of economic superpower and former military aggressor.

The Japanese government, expressing repeatedly its intention to contribute significant resources to regional economic development, will apparently be held to that promise by its neighbors, anxious to see Japan open its market and accept foreign unskilled workers.

According to one Asian official stationed in Tokyo, "We welcome anything but lip service."

In addition, other officials stress the need for Japan to create a cohesive and comprehensive policy, ensuring that its contributions do not result in Japan's dominance over the region.

Government leaders, still highly sensitive about being accused of wanting to create another Greater East Asia Co-prosperity Sphere, are pondering how high a profile Japan should take as it distributes its wealth and expertise to its neighbors.

Mose export-oriented Asian countries depend on far-off markets in order to maintain their fast pace of economic growth, sometimes double that of developed nations, because regional spheres of trade are not big enough, analysts say.

Such growth depends on the production of low-priced, high-quality products and their acceptance in the world's marketplaces, including Japan, they add.

Kazuo Nukazawa, managing director at the Japan Federation of Economic Organizations (Keidanren), says Japanese firms are increasingly under pressure to accept more products from such countries and to help them become competitive in the world market.

In 1988, Japan's imports from other Asian nations increased 25.3% from the previous year to $57.6 billion, accounting for 30.7% of the nation's total imports. With exports of $76.5 billion to Asia, however, its trade surplus within the region stood at $18.8 billion.

Asian diplomats and business people are growing more vocal about the trade gap.

Kim Hui-chul, general manager of the Tokyo branch of Hyundai Engineering & Construction Co. of South Korea, singles out Japan's Industrial Standards Law as an example of a non-tariff barrier, effectively putting limits on 7,800 items including construction materials, machinery parts and chemicals.

Allowing foreign workers

Neighboring countries are also urging Tokyo to permit the entry of unskilled laborers, plentiful in their nations but painfully scarce in Japan.

In December, Japan amended the Refugee and Immigration Control Act to allow more skilled foreign workers, while at the same time introducing penalties against recruiters of unskilled foreign workers as well as firms employing them.

Hiroshi Komai, an associate professor at Tsukuba University, says that the amendment is no answer to the present situation—an influx of Asian workers is inevitable when Japan's per capita gross national product is 99 times that of Bangladesh and 45 times larger than Pakistan's.

"It is estimated that 100,000 foreigners are already working illegally in Japan.

"Japan talks of internationalization but opposes the opening of its labor market. It's like speaking tongue in cheek," says Yang Wu-chin, managing director of the Korea Foreign Trade Association.

Despite such criticism, the Japanese government is taking things slowly. A special cabinet meeting on foreign workers earlier this month apparently resulted in little more than a statement by Prime Minister Toshiki Kaifu that, "We will have to continue studying the issue carefully."

Some experts, however, predict that during the next decade, Japan will open its manual labor market selectively, signing bilateral agreements on numbers of workers and lengths of employment.

Development assistance

Japan's direct official development assistance in 1988 to East Asian nations—Indonesia, Thailand, the Philippines, Malaysia, Myanmar [Burma], South Korea and China—hit $2.9 billion, or 45.5% of the nation's total ODA on a bilateral basis.

But the quality of such assistance is now under question. In 1989, loans made up 59.4% of total Japanese ODA to East Asian nations, up from 57% the year before. At the same time, outright grants dropped from 28.8% to 21.1%.

"We need to raise the ratio of grants, as well as insure that the assistance is being put to the best use," says Hisashi Owada, a deputy minister at the Foreign Ministry.

At present, many Japanese officials say that Japan should refrain from displaying its leadership, and should instead remain a behind-the-scenes contributor to regional development.

Naomichi Suzuki, vice minister for international affairs at eh Ministry of International Trade and Industry says, "Japan's contribution to individual projects will eventually evolve into a well-defined and politically palatable policy for the entire Asia Pacific region."

But, says Owada of the Foreign Ministry, Japan's stance will continue to be based on the doctrine outlined by former Prime Minister Takeo Fukuda in 1977. The doctrine states that Japan will never again become a big military power, that it will strive to establish mutual trust with other Asian nations, and contribute to peace and prosperity in the region.

Steady Growth, Drop in Trade Surplus Predicted

OW3012010189 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 p 6—FOR OFFICIAL USE ONLY

["Japan in the 1990's" column article by Hisayuki Mitsusada, JAPAN ECONOMIC JOURNAL staff writer: "Steady Growth, Drop in Trade Surplus Ahead"]

[Text] During the next decade, Japan's trade surplus will narrow sharply, while it steps up its imports of manufactured goods and continues to shift production overseas, creating jobs and transferring technology abroad.

But these developments—all of which have been strongly advocated by its trading partners—are not likely to relax tensions with other countries. Such is the impact that politics has on economics.

Ultimately, however, in the absence of a dip in the yen's value, inflation, a surge in oil prices, or protectionism and closed trading blocs overseas, the analysts project the Japanese economy will continue its steady growth around an annual 4%.

Narrowing surpluses

Japan's trade surplus—its biggest headache in the 1980s will likely continue to contract due to slow growth in exports to the U.S. and rising imports from Southeast Asian nations, though there may be a temporary rise in 1990 because of the weak yen.

Indeed, the nation's trade surplus shrank from $100 billion in 1986 to $95.3 billion in 1988. The share of manufactured goods in Japan's imports grew from 44.1% in 1987 to 49% in 1988, while imports from Southeast Asia rose from 23.8% to 25.6%.

According to the Japan Center for Economic Research, an affiliate of Nihon Keizai Shimbun Inc., the trade surplus will shrink to below $60 billion in fiscal 1994. But as return on overseas investments grows and net external assets increase at a pace of $40-50 billion a year, the current-account surplus will not fall at the same pace.

Nonetheless, it is expected to drop to about $48.4 billion in fiscal 1994, from $77.3 billion in fiscal 1988. Thus, as a percentage of nominal gross national product, the percentage will have declined to an economically sound 1.1% from a peak of 4.5% in fiscal 1986. The percentage in fiscal 1989 is estimated at 2.1%.

"Economically, the level is no longer a big problem," says Masaru Yoshitomi, director of the Economic Planning Agency's Economic Research Institute.

That Japanese industry has quickly shifted production abroad is shown by the fact that more than a third of Japan's accumulative direct overseas investments between fiscal years 1951 and 1988 have been concentrated in the past two years.

That may sound similar to U.S. companies' strategy of shifting production abroad in the early 1980s, but there's a big difference: Japanese companies are not neglecting investment at home.

A recent survey by the Economic Planning Agency showed that firms planning more investment abroad tended to be boosting capital spending in Japan, too.

Sustainable economic expansion

After coming out of the anguishing "strong-yen recession" of 1986, Japan is now into the third year of domestic-demand-led growth. The economy grew 5.2% and 5.1% in real terms in fiscal 1987 and 1988, while external demand fell 1% and 1.7%, respectively.

Private-sector capital spending is also expected to pull the economy along because most of the investment is for labor-saving and research and development. Nearly one-third of 2,500 companies recently surveyed by Industrial

Bank of Japan said less than 10% of their capital spending was designed to boost output.

Private capital spending in fiscal 1987 grew a real 10% in 1987 and 17.9% in fiscal 1988 and is expected to rise more than 15% in the current fiscal year. Even though the pace will slow, the growth rate of such spending is projected to remain much higher than that of the economy as a whole.

"The current capital spending is not very sensitive to economic cycles," says Haruki Yoshida, general manager of the industrial research department at Industrial Bank of Japan.

There are weaknesses. The labor shortage is becoming acute, abetted by the rapid aging of the population, which, in turn, will put pressure on the nation's budget. But the most common view is that the economy is flexible enough to cope with the problem, just as it did with the oil shocks of the '70s and the surging of the yen.

Japan's labor shortage will amount to over 1 million workers by the year 2000, in contrast with a 1.5 million surplus in 1988, according to a Labor Ministry forecast.

Yet, economists say there is much room for expanding the employment of women and the aged. Deregulation of the multilayered distribution system and the weakening agricultural sector will provide labor for expanding service sectors.

For example, restructuring of the wholesale industry alone can provide an additional 2 million workers out of the 4.3 million now working in the industry, according to Hirohiko Okumura, chief economist at Nomura Research Institute Ltd.

More untenable factors come from abroad. Even the most optimistic economists fear that a weakening of the yen due to political factors, a surge of oil prices beyond $30 a barrel, and the formation of regional trading blocs might damage steady growth.

Fiscal rehabilitation

With the steady expansion of the economy in the first half of the 1990s, Treasury is expected to have more room for policy options, such as renewed public spending for the accumulation of social capital, such as roads and airports.

"For the time being, the private sector will be strong enough to drive the economy," says Shimpei Nukaya, deputy director-general of the Economic Planning Agency's Economic Planning Bureau.

"But since the aging of the population will moderate economic activity after the turn of the century, the public sector will have a greater role in enhancing the nation's quality of life in the latter half of the decade," he adds.

'Internationalization' Seen as Key to 90's

OW3112182189 Tokyo THE DAILY YOMIURI in English 30 Dec 89 p 9—FOR OFFICIAL USE ONLY

["Currently Speaking" column article by YOMIURI SHIMBUN staff writer Yasuhiko Shibata: "Internationalization: Japan's Key to the 90's"]

[Text] The 1980s, starting with the second oil crisis precipitated by the Iran-Iraq war and ending with a wave of democratization in Eastern Europe, are coming to a close.

The current decade has been an age of unprecedented prosperity for Japan. But what does the next decade hold in store for the Japanese economy? Will it be an age of further prosperity or the first step of Japan's downfall?

More than anything else, the answer will depend on how skillfully Japan can move toward internationalization.

A series of drastic events in the past year have challenged the flexibility and resilience of the Japanese economy. The United States threatened to invoke the Super-301 sanctions of the new trade act; Japan was forced to revise and rethink its economic cooperation with China following the Tiananmen Square incident; and Japan was also questioned about its policy toward the COMECON nations in the wake of the democratization movement in Eastern Europe.

In spite of these challenges, the Japanese economy, bolstered by appreciation of the yen and low interest rates, basked in its second longest postwar economic boom with domestic demand as the prime mover.

At the end of 1989, the real annual growth rate stands above 4 percent and Japan is the world's largest creditor as well as the world's largest donor of official development assistance, where it surpassed even the United States.

The image of Japan as one of the world's richest nations has spread across the globe.

In the past decade, Japan overcame both the second oil crisis and a business slump caused by the strong yen, giving further ammunition to the opinion that no matter what crisis hits Japan, it will be able to rise from the ashes like a phoenix. Its highly developed technology, its diligent workforce and the people's unity and willingness to make sacrifices in the face of a crisis have been the driving power behind Japan's miraculous postwar economic prosperity.

These same factors, however, appear as a threat to the rest of the world and may explain why the United States, now the "weak economy," has resorted to "Japan bashing."

In the 1990s, we will complete a move which began in the last years of the 1980s—a move from an age of cold-war conflict to an age of economic conflict. In the

new age, Japan's role as the U.S.'s ally will be significantly reduced and the United States' view of Japan as the destroyer of its economic might will be intensified.

This year a book about the rise and fall of Carthage, an ancient giant trading state, had a large impact on its Japanese readers. The Carthaginians, as they worked single-mindedly toward building their wealth, attracted the hatred of neighboring nations. In the end, the state was destroyed by the Roman empire.

Japan in the 1980s was in danger of repeating the history of Carthage.

The world of the 1990s will be different from the 1980s. The greatest difference will be that the East-West exchange of technology will finally be smooth and complete because of the deterioration of the cold war structure. Although the North-South conflict will linger on to some extent into the 1990s, individual countries will be free from ideological oppression, resulting in stronger economic vitality in the countries.

The post-old war global economic sphere will be divided into the European region centered on the united European Community, the North American region with the United States as its center and the Asian region revolving around Japan.

However, if Japan cannot grasp a decisive leadership role in Asia, it may become isolated and be doomed to repeat the tragedy of Carthage.

The Japanese must candidly and honestly examine their present selfish philosophy with its lack of either courtesy or morality and establish a better society.

Such self-reflection may be the first step towards Japan's internationalization—internationalization that hopefully will enable Japan to be warmly accepted by the rest of the world.

Daily Reflects on Past Year, Future Prospects

OW3112194489 Tokyo THE DAILY YOMIURI in English 30 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Behind the Scenes" column article by Minoru Hirano: "Golden Age or Long Descent"]

[Text] For Japan, as for the rest of the world, 1989 was a year full of change. The country's longest reigning emperor, Emperor Showa, died. A new era began. And the Liberal Democratic Party [LDP] suffered a major defeat in Upper House elections.

Unchanged in 1989, however, was Japan's economic boom.

The government recently revised upward the forecast for economic growth from 4 percent to 4.6 percent for fiscal 1989, which ends March 1990. With the expected growth rate for fiscal 1990 at 4 percent, some economists have labeled the 1990s Japan's "Golden Age."

The forecast has been supported by the World Bank, which quoted Japan's per capita GNP in 1988 as $21,040, up sharply from $15,840 in 1987, and the second largest after the Swiss. Japan's per capita GNP is 64 times that of China.

Personal savings in Japan as of Sept. 30, 1989, was 674,346 billion yen, an increase of 19,312.2 billion yen over the same period last year. Personal savings are 4.7 times larger than the cumulative debts of all developing countries, which stand at $1,290 billion.

Direct overseas investment by Japanese companies during the first half of fiscal 1989 was $30.8 billion, a year-to-year increase of about 30 percent. Goods bought by Japanese tourists overseas from April to October 1989 equaled $13.5 billion, a year-to-year gain of 30 percent.

Economists boast that just as the United States created the world lifestyles with Ford automobiles and Edison electrical appliances during the first half of the 20th century, Japan as the leader of the microelectronics revolution will mold world lifetyles into the 21st century.

But economists should be aware and wary of the thorns in their rosy economic outlook.

The Organization of Economic Cooperation and Development stressed recently that high domestic prices, long working hours and poor housing conditions are preventing the Japanese from reaping the benefits of the expanding economy. Property speculation and dramatic gains in stock prices have widened income disparity.

Furthermore, the nation's wealth is itself becoming a destabilizing factor. The economic disparity between Japan and other Asian countries is attracting foreigners to Japan's labor market. Critics warn that such immigration threatens Japan's social stability and would put strains on an already densely populated country.

If Japan were to increase aid to, and therefore raise the living standards of, its Asian neighbors, the influx of foreign workers would be arrested to some degree. However, a recent public opinion poll by the Prime Minister's Office shows a large number of Japanese are against such an increase. The survey disclosed that 48.2 percent of the Japanese approve of the increase, while 38.1 percent oppose it. Such attitudes are remnants of Japan's insular past.

More fundamental to the issue is the attitude toward work among today's youth. Younger Japanese dislike difficult, dirty jobs, an attitude that differs considerably from that of their parents, who were known as working bees. According to a survey by the Japan Productivity Center, only 6 percent of young people said they consider work more important than leisure. Japan's graying society has also affected the spirit of adventure among Japan's youth. These changes, put together, constitute a dangerous trend. Pessimists say that the prosperity of Japan will end in 15 years.

Supporting this view, another argument says that Japan's economy began a long descent in 1985, when Japan became the largest creditor nation in the world and the United States became a debtor nation. Since that year, the United States has put Japan in the global bogeyman role once filled by the Soviet Union.

The most ominous predictions warn that Japan is like Carthage, a country of merchants and seafarers that prospered in the Mediterranean 2,000 years ago and was destroyed by Rome. Japan should not overlook the fact that the United States, by sending troops to Panama, showed that it would resort to force to defend its position as a superpower.

United States

MITI Head on Timing of SII Consultations

OW3012044989 Tokyo MAINICHI SHIMBUN in Japanese 25 Dec 89 Morning Edition p 7—FOR OFFICIAL USE ONLY

[Text] The Japanese and U.S. Governments have decided to postpone the holding of the 3d Japan-U.S. structural issue consultations [Japan-U.S. Structural Impediments Initiative] from the originally scheduled 16 and 17 January to February next year. Referring to this postponement at a news conference after an extraordinary cabinet meeting on 24 December, International Trade and Industry Minister [MITI] Matsunaga said: "It has become necessary to work substantially and specifically for an interim appraisal scheduled to be presented at the March consultations. However, Japan and the United States have been unable to complete preparations for the consultations in time, because of their preparations for the budget and the annual State of the Union Message respectively." Concerning the fourth structural issue consultations, scheduled for the United States in March next year, the minister said: "Whether to postpone the consultations to after April next year would depend on the outcome of the February consultations," thus hinting at the possibility of successively postponing the consultations. At the news conference, the minister anticipated the third structural consultations to be held "in late February next year," and made it clear that they would be held after the general elections, most probably to be held on 18 February next year.

* Problems With Structural Impediments to Trade

902A0025 Tokyo ASAHI SHIMBUN in Japanese 26-27, 29 Oct-5 Nov 89—FOR OFFICIAL USE ONLY

[Serialized article by ASAHI structural problems coverage section]

[26 Oct 89 p 1]

[Text] **Imports Sold at Several Times Cost**

The Japanese themselves, without it being pointed out to them by the United States, have felt that, somewhere, the Japanese system as representative of an economic superpower is warped. They find it strange that, despite having become rich enough to be envied abroad, the life of the people has gotten no easier than before. We reexamined Japan's structural problem, which has evolved into a diplomatic problem, before a second round of talks on structural impediments to trade begins in Washington on 6 November.

An Easy Market

Starting this year, one after another slender bottle of the popular, high-class French brandy Henessey VSOP began disappearing from the shelves of discount houses selling foreign liquors; in their place appeared short, fat bottles of Henessey. Jas. Henessey, the producer, changed the design of its VSOP bottles in every market except those of the United States and Japan. The discount houses were buying the old bottles of Henessey not through import agents but via parallel importation, mainly from Southeast Asia. That route was shut down.

"In Japan, when you say 'Henessey,' people usually think of a slender bottle," according to Eiko Kaneko, president of the Import-Export Service Center for a trading company in Yokohama engaged in parallel importation. "The short, fat type of bottle is unattractive and probably disliked by bars and clubs. This will probably deal a fatal blow to parallel importation." In fact Kawauchiya, a discount house located in Higashi-kasai, Tokyo, in October began selling the new bottles of Henessey for 5,800, about half the suggested retail price of 11,000 yen. Even so, sales were slow—this despite the fact that the taste and volume of the new bottles of Henessey are identical to that of the old.

Parallel importers usually buy from overseas wholesalers and pay the shipping costs themselves. These importers can sell the goods cheaply even though the price they pay is naturally higher than the price paid by import agents who import the goods directly from the producer because the retail price of goods delivered through the import agents is very much higher than price levels worldwide. In the case of Henessey VSOP, that price differential is 2-3 times higher. Profit margins for distributors working the import agent route are just as large. To protect these rights and interests, these distributors are working to wipe out parallel importation, and a change in bottle design, regardless of Jas. Henessey's intentions, was truly effective in doing so.

Henessey Japan (with headquarters in Tokyo), the general import agent for Henessey, had a reported income of 10.1 billion yen last year. Most of its sales were of VSOP, and it imported about 6 million bottles last year. That is a profit of about 1,600 yen per bottle. During this spring's debate over liquor tax reform, it unintentionally came to light that the import price of VSOP was about 1,000 yen per bottle (including tariffs). That works out to a profit of 1.6 times base price.

Customers Do Not Complain, Either

The agents are not the only ones making money. The base price of a bottle of Henessey VSOP, including the new liquor tax, is about 1,700 yen; that means a gross profit of 9,300 yen emerges from the distribution process. Then the high-class bars and clubs that buy Henessey charge their customers 25,000-30,000 yen to keep a bottle for them. This results in a chain reaction of high pricing. Most customers are on company expense accounts. Complaints that the price is high are not heard.

"Japanese customers are finicky about brand names and quality, but they don't worry about the price," says Henessey Japan Director Prat, who has been in Japan 12 years and knows every aspect of the Japanese market. "The price remained the same when the yen depreciated and when we were losing money. We have no plans to lower the price hereafter as well."

Jas. Henessey's parent company, LVMH Moe Henessey-Louis Viton, as its name implies, is a brand name conglomerate that includes Louis Viton bags and Givenchy and Christian Dior cosmetics. According to its 1988 annual report, its Japanese affiliates had total sales of 3.03 billion francs (about 69.7 billion yen); its American affiliate had similar sales. At the same time, its operating profits were 1.17 billion francs in Japan but only 300 million francs, or one-quarter as much, in the United States. Japan is an easy market.

Blue Jeans and Magazines, Too

Nor are high prices of imported brand name goods limited to luxury items. Take "501" blue jeans from the famous jeans maker Levi Strauss, for example. Levi Strauss Japan (with headquarters in Tokyo) imports 501 jeans from its parent company in the United States and sells them at a suggested retail price of 7,900 yen. In the United States, the pre-washed jeans so popular in Japan sell for under $40 (5,600 yen) and regular jeans can be bought at bargain sales for $10-$20.

Levi Strauss anticipates an ordinary income of 4.4 billion yen on sales of 21 billion yen this November, making it an extremely profitable firm.

There are other easy markets as well. A single issue of the Pacific edition of the English-language weekly magazine NEWSWEEK sells for 670 yen in Japan (including consumption tax) but can be bought in Korea for 2,000 won (about 420 yen) and in Hong Kong for 20 Hong Kong dollars (about 370 yen). Its rival TIME's Asian edition also costs the same. According to NEWSWEEK International Vice President Shinsuke Sai, "We've had no complaints from readers, and the price differential has never been an issue inside the company."

This fall, the parallel importation of brandy received a second shock. Importers of Remy Martin, which was as popular as Henessey until several years ago, started selling their VSOP at a suggested retail price of 6,000 yen. This price is insufficient to support parallel importation. But some foreign liquor wholesalers question the efficacy of this price-cutting tactic. They think that a cut in retail price necessitates a lowering of the cost of keeping bottles for customers, and that high-class bars will avoid Remy for that very reason.

[27 Oct 89 p 1]

[Text] **The Absent Consumer**

This April, a proposal aired at a joint conference of the policy committee of the Tokyo Chamber of Commerce in Marunouchi, Tokyo, created a commotion. The theme of the conference was "Revitalizing the Countryside." The proposal, submitted in a report from the leadership of a chamber of commerce from the northern Kanto area, suggested that the abolition of the Large-scale Retail Store Law should be studied in an effort to revitalize the countryside.

Obstacles Even To Revitalizing Towns

The small- and medium-size retail stores that are affected by the appearance of large retailers in their areas are the most powerful members of the chambers of commerce. The Large-scale Retail Store Law is designed to make the large retailers who wish to open a branch store in an area adjust their plans to the needs of the community. It simply made no sense for the leadership of a local chamber of commerce to call for the abolition of that law.

"Although there are many problems to be worked out, we have to work cautiously on the Large-scale Retail Store Law," said Committee Chairman Ryuzo Seto, taking up the remark to quiet the conference.

But the local leader would not be quieted. "It's very difficult to offer any more incentives for factories to locate in our region," he said, almost anxiously. "So we thought of developing shopping centers, but under the current law that would take forever."

The 21 November opening of an Izumiya supermarket in Hakubai-cho, Kitano-shita, Kita-ku, Kyoto, has been planned since the Large-scale Retail Store Law went into effect in 1974. Seamy "negotiations" involving gangs continued between Izumiya and the local shopkeepers for the intervening 15 years.

The local merchants' association eventually split and Izumiya was finally allowed in. Kyosuke Takada, chairman of the "Conference for Measures Against the Building of Retail Stores" that fought Izumiya nearly to a standstill, and owner of a food store in the neighborhood, said that "the Large-scale Retail Store Law is a flawed law and should be repealed immediately."

Reflecting Customers' Opinions

The Large-scale Retail Store Law was enacted at a time when the supermarkets had embarked on a strategy of low-margin marketing of a large variety of goods and

were rushing to expand in the late sixties and early seventies; the law was intended to protect the small- and medium-size establishments which were threatened by the spread of the supermarkets. It was also righteously labeled a "protection of the interests of the consumers."

In fact, however, the history of the law has been "a history of codifying and strengthening regulations," in the words of one Tokyo Chamber of Commerce source, and the interests of the consumers were quickly forgotten.

High-rise condominiums crowd the east entrance to the JR [Japan Railroad] Yokosuka Line's Higashi-Totsuka Station in Totsuk-ku, Yokohama. When a 29-story high-rise condominium now under construction is completed, the number of households in the area will swell to 3,300. There is one small supermarket nearby; convenience stores dominate the area. If people living in this housing complex go shopping at neither of these facilities, they are reduced to cooperatives and trucks that come by selling fish and vegetables. Long lines of housewives are forever standing at these trucks.

"I always go to Yokohama for clothes," says a 30-year-old mother of two children, ages 3 and 1, "but it's very tiring to go so far with two young children. For everyday things I end up buying them at convenience stores, which are expensive."

A 19,000 square meter Daiei supermarket was actually scheduled to open here next year, but the proposed construction site is still just an empty lot. Seibu has plans to build a 40,000 square meter mall here 3 years from now, but no one living here knows when this, too, will be built.

Nevertheless, realtors located near the station continue to sell condominiums, saying that while construction of the Daiei is behind schedule "it'll be here soon."

A Seibu mall is also planned for Odakyu's Shin-Yurigaoka Station in Aso-ku, Kawasaki, which embraces a new housing development, but so far no dates have been set. This summer a portion of the inhabitants were so angry at the inconvenient shopping arrangements that they called representatives from both Seibu and the local merchants' association together and cross-examined them about the delay.

"A lot of people bought homes here because they said a large retail store would open here," said Yoshio Minowa, the residents' representative. "This is not just a matter between the merchants alone; we want them to heed the opinions of their customers."

When a large retailer wishes to build a store in an area, the law requires a consultation with the region's Commercial Activities Adjustment Council. A consumers' representative is of course included. However, it is widely accepted that, even before the council is convened, the large retailer will have engaged in extended discussion—generally termed "prior explanation"—with the local small retailers. It is these discussions that set the date of opening and the size of the new store. The consumers, who are central to the whole arrangement, are shut out of what one major mall president calls "nothing more or less than secret negotiations."

The Large-Scale Retail Store Law in effect weakens new entrants and protects the interests of existing stores. In the suburbs of Ashikaga in Tochigi Prefecture, a suburban-style shopping center built jointly by small- and medium-size retailers and Uni supermarkets opened 4 years ago. The council regulates more strictly closing times and number of days off for the new center than for existing large retail stores.

The center closes at 6:45 pm. Some 66 percent of all customers say they want the center to stay open until 7:30 or 8:00.

Myth of Cheap Supermarket Prices Crumbles

Those small- and medium-size retailers who participated in the new shopping center were in fact as a group adamantly opposed to the opening of an Itoyoka-do store nearly 10 years earlier. These same people are now bound by the Large-scale Retail Store Law.

A survey of prices in Tokyo in August of this year revealed that 24 of 46 food items and 16 of 34 daily use articles cost more at supermarkets than at small retail stores. Ten years ago the proportion was just about one-quarter.

With the competitive edge granted existing stores by the Large-scale Retail Store Law, the myth of cheap supermarket prices suddenly has crumbled.

[29 Oct 89 p 1]

[Text] **Banding Together**

Right after Former Prime Minister Kakuei Tanaka announced his resignation, a fire appeared to be started. Facsimile and telephone communications were established in Chuetsu in Niigata Prefecture, his home area, and it is now a more convenient place to live. A mid-size building contractor talked to us about secret arrangements in the industry.

On average, about 10 contractors participate in bidding for public projects. First, the local powers confer with each other by telephone and decide who is to be awarded the bid. That contractor then sets the value of his own bid as well as the bids of the others participating in the bidding, beforehand, and sends this information by fax to all the others. Once explained, the procedure was simple.

Local Governments Do Not Deny Existence of Collusion

With road and river repairs, the construction site determines who the contractor will be. In other words, a kind of "sphere of influence" arrangement prevails. That is

why such "study groups," as this collusion is called in the countryside, are virtually never formally convened. Of course, factors other than "spheres of influence" come into play. Supplemental work, for example, calls for according precedence to the contractor who first did the original work, or a contractor who is not doing well may be given work to help him out.

Nor do officials in local public works departments deny the existence of collusion; there are a large number of contractors, they say, and it is only proper that "before work begins the traffic is rerouted accordingly."

The Chuetsu region is one of many areas across the country that receive large amounts of snow. From December until April, the area may be blanketed by as much as 3 meters of snow, so it is also a fact that, since time immemorial, people had to help each other or they did not survive. "Public construction projects are our lifeline," the builders all say. "These projects on average account for 80 percent of our sales. Without them we couldn't live."

In Niigata's third electoral district, an annual custom of convening an "Echizankai [local political support group] assessment" by Yasushi Yamada, Tanaka's secretary, was canceled at the same time the former prime minister announced his resignation. This assessment consisted of petitions for public works projects that Secretary Yamada accepted as he made the rounds of the 33 towns and villages in the third district each year from September to November. Thanks to this assessment, say officials of the city of Sanjo, most of the facilities they had wanted—roads, schools, and so on—have been built.

"If a politician doesn't do at least that much, he won't get any votes," says Isamu Ejiri, for 24 years headman of Nishiyama town, Kariba-gun, former Prime Minister Tanaka's hometown. The former prime minister's power brought the region many large-scale construction projects, including the Joetsu Shinkansen and the Joetsu Highway. Those projects supported the Echizankai and they supported the former prime minister.

Protecting Fellow Firms' Interests

What it comes down to is this: Work or now work—so say the builders. When there is no work, the construction companies compete against each other on the cost of construction. When that happens, they all take orders on which they only lose money.

Take, for example, the dango or collusion incident surrounding U.S. military construction orders in Yokosuka, Kanagawa Prefecture, for which the United States military has sought a huge indemnity. A construction company in Kanagawa Prefecture involved in the incident is said to be in collusion with other companies for mutual protection of interests. When this particular firm started bidding on public works projects about 10 years ago, it did not understand the nature of the collusion. "Everyone but me put in bids very close to the winning bids," says the firm's head. "I thought it strange. Then, after a while, I began to understand what was going on."

By joining with the other construction companies, a firm can get workers on loan from these other companies when it is itself short of hands; the same applies to vehicles and machinery. Even road work over short stretches is parceled out among the companies in a friendly manner. Smaller firms short of technology or personnel sometimes draw on large and medium-size companies for these resources in a kind of "reverse sub-contracting." Everyone helps everyone else.

To leave this circle of fellow firms would be unthinkable, the firms say. If they did so, they would not be able to make money even if they took work at cheaper rates.

The character of the collusion remains the same among large firms as well. "We call it 'adjustment,' though," says one powerful figure in the industry. In the case of large construction companies, the firms adjust matters by deciding which companies will undertake the project in question based on a consideration of some 10 or 20 different conditions, such as the companies' areas of expertise and the size of the contributions each has made to the politician that brought them the project.

Says the head of another large construction firm: "The claims of U.S. firms that it is difficult to enter the industry because there is collusion are beside the point. The fact is, we'll talk to anybody, even American companies."

Although they acknowledge that such collusion is illegal, neither the large companies nor the small- and medium-size firms make any effort to leave its cozy confines.

Making Public Works Projects Lucrative

There are no statistics on the extent to which the public's taxes are wasted through collusion. The construction industry's biggest customer is the government. Government contracts account for a third of the industry's sales. Yet even the government is of the opinion that, in the words of Ministry of Construction officials, "It's perfectly normal for us [the government] to encourage the construction industry. The entire industry would collapse if we insisted on totally free competition."

Recently there has been a boom in private construction brought on by the yen's appreciation, and not a few builders avoid unprofitable public works projects. Yet even these projects are circulated among the firms, and builders say that if "adjustments" were not made there would be nobody to take on such projects.

In fact, officials in Tokyo and in Chiba Prefecture are anxious about an inability to order construction work because submitted bids are well in excess of construction costs as estimated by the city of Tokyo and by Chiba Prefecture.

The construction companies insist they make little money off public projects, yet they crowd around to take

them on just the same; they do so in part because they want to attain or maintain credibility. Credibility makes it easier for them to get private construction orders as well. It is something like being purveyors to the Crown.

There are more than 510,000 public works builders nationwide. Ninety-nine percent of these companies are small- and medium-sized firms capitalized at less than 100 million yen. Sheer numbers give rise to an excessive amount of competition; in order to avoid that excessive amount of competition, collusion is practiced.

Says one old builder in one of Niigata's third electoral district, with confidence: "There's such a thing as 'arranging matters,' you know, and that, too, is dango. All Japanese do this. Live together and prosper together. It'll never go away."

[30 Oct 89 p 1]

[Text] Big Brother

Cars built in the United States by Japanese automakers who have set up production facilities there are popular with Japanese youths. Since its relanding in Japan in April of last year, 6,000 of Honda's American-made Accords have been sold—twice the anticipated sales volume for the car for the period ending last December. Mazda, too, has been importing the Probe, developed jointly with Ford, since August of last year; it has sold about 4,500 units in 1 year. Both these cars are produced only in the United States and have the steering wheel on the left side—an "American touch" that has spurred sales.

Problems With Left-Side Steering Wheel

Nevertheless, the Ministry of Transport has had some problems with these cars with the steering wheel on the left. Traffic regulations do not specifically prohibit such cars, but all domestic Japanese autos have the steering wheel on the right. Ministry officials insist it is only right that cars produced by Japanese companies have the steering wheel on the right.

"Purely foreign cars" are subject to no such directive. Some automakers, like France's Renault, that produce right-side steering wheeled cars for export also produce left-side steering wheeled cars only for export to Japan. In other words, only Japanese automakers are under such strong pressure.

"There are a lot of people in Japan, too, who would like to drive cars made for Americans," says Honda senior managing director Yoshihide Munekuni. "I can't imagine there's anything wrong with having the steering wheel on the left side," he says, tilting his head. Still, half the new model Accords to be imported starting next February will have the steering wheel on the right; Honda denies it is following government instructions.

Toyota, too, is currently considering importing its American-built Camry. However, President Shoichiro Toyoda has announced that such cars "will have the steering wheel on the right, because the Ministry of Transport has a policy," so the whole fleet of imported cars is expected to have right-hand steering.

It is clear that cars with the steering wheel on the left are inconvenienced by Japanese roads—highway toll booths, for example, are built on the premise that the steering wheel is located on the right. But then, why should the stipulations apply only to Japanese automakers?

Why Only Baby Clothes?

Among the strictist of already-strict government regulations are those governing the use of Formalin in clothing. Regulatory standards for the use of Formalin in clothes for babies are stricter than those for its use in adult clothing because the government says Formalin causes rashes; Formalin must not be detected at all in such clothing. Formalin is also used in building materials, meaning that traces of it can adhere to clothes during transportation and storage. That is why baby clothes must be kept wrapped from shipping to sale in vinyl bags.

Regulations governing the appearance of Formalin in clothing also exist in the United States, Germany and England. Yet there is no country that regulates the adherence of Formalin to clothing from atmospheric sources.

Osamu Doi, director of Environmental Health Bureau of the Ministry of Health and Welfare, says, "It is foreign countries that do not have Formalin regulations that are the problem—unless, of course, the public chooses to make the companies take full responsibility if a problem arises." But according to Dr Hideo Nakayama, chief of dermatology at Tokyo's Saiseikai Central Hospital, it is usually adults who get Formalin-induced allergies; only very rarely do infants come down with Formalin allergies. "There is no scientific basis for making Formalin regulations stricter for baby clothing than for adult clothing," he says.

There are about 10 cases a year of Formalin detection via random sampling. Says Kenichi Usuda, vice manager of Alps Kawamura Business Division and an industry expert on the problem: "Formalin can't be seen and you can't tell where it is. Its disposal is a matter of luck. It may be a good idea to rethink the standards, to see if they are really appropriate."

No Clear Answer

One foreign affiliated cosmetics maker developed a beauty lotion containing liposome, an ingredient made from lecithin, a soybean protein. Liposome acts to heighten the effectiveness of the lotion. Three years earlier, this company applied to the Ministry of Health and Welfare for permission to import products containing liposome in their lists of ingredients.

In the preliminary study stage, the person in charge of the matter at the Ministry of Health and Welfare refused to allow the importation because liposome was not on the list of accepted or recognized ingredients. But the application sailed right through when the company applied for similar permission using the name "lecithin," the basic ingredient of liposome. Then, 2 years later, company officials were astonished to find the ingredient "liposome" listed on domestically produced products. They could get no clear answer from the Ministry of Health and Welfare as to why these manufacturers came to be able to use liposome.

Parfums Christian Dior, the French cosmetics maker, always shuts down its factories before manufacturing cosmetics for Japan—which account for only a small amount of its total production. It does so in order to cleanse the machinery of ingredients that cannot be used in Japan. H. P. Kepella, president of Dior's Japanese corporation, says he has a hard time explaining to angry researchers back in France why they must use old ingredients despite having developed new and better ones.

Starting in the mid-1960's, our country's cosmetic ingredients regulations became the strictest of any of the advanced industrialized nations after an epidemic of melanoderma caused by cosmetics. It is said that the Japanese use large volumes of cosmetics and are more susceptible to melanoderma than other Oriental peoples. But that does not mean that special skin requires special rules.

[31 Oct 89 p 1]

[Text] High Prices Mean High Quality: An Article of Faith Among Consumers

Forty-nine-year-old A., a fashion consultant with experience in marketing brand name goods from all over the world while working in a large trading company, conducted an unusual experiment—a "brand name complex" survey, so to speak.

Parisian Prices "Sell Dreams"

A. chose about 100 pieces of women's clothing scheduled to be marketed 6 months in the future by a leading Italian brand name. He rented a first-class beauty parlor frequented by monied housewives and invited 60 of its customers to a 3-day fashion show and sale. However, A. removed all clothing labels that would indicate the brand. A. also dropped the prices; a long cashmere coat that might have a 390,000-yen price tag in an Aoyama boutique, for example, was marked at 230,000 yen. These prices were virtually identical to prices in Italy—prices that, according to A., "can be managed with a bit of ingenuity in Japan."

There were no buyers among the customers the first day, only lookers checking the price tags. On the second day, when A. let it be known, quietly, that the articles were made in Italy, A. took about 10 orders. On the third day, when A. told customers that the goods were actually such-and-such brand, A. was overwhelmed with orders. There were more than 50 orders in almost no time. That was in May of last year. A. declined to say what the brand names were, claiming that it would make subsequent work more difficult.

Overseas brand name makers have adopted the following strategy for dealing with brand-conscious Japanese consumers.

Last year, France's Givenchy began selling lipstick, nail polish and beauty creams in Paris, as part of its strategy for expanding Givenchy into areas other than perfumes, its only cosmetic. These goods will also be sold in Japan next spring. However, prices in Japan will be double those in Paris. Japan is the only place where these goods will be sold at such high prices.

Yutaka Takakura, chief executive officer [CEO] of Parfum Givenchy, which is responsible for the Japanese market, once worked in a market research firm. His experience convinced him that "cosmetics are merchandise that sell dreams," he says emphatically. In Japan, a high price is an important part of a high-class image. It would be tantamount to suicide for Givenchy to sell its goods at Paris prices in Japan, where cosmetics are expensive.

It is only natural that shopping expeditions be organized and parallel importation occur if there is a large difference between the foreign and domestic price of an expensive article. For Takakura, in charge of Japanese operations, that is something of a dilemma. "It may be easier to set a certain price and mass market, if the brand-name image persists in Japan. Right now, Japan is both a sales stronghold and a showroom for Givenchy's cosmetics." Takakura is taking a very business-like approach to the matter.

No Difference in Performance

Overseas manufacturers are not the only ones to take advantage of the Japanese consumers' belief that high prices are an indication of high quality. Kobe's Criss Corporation CEO Hidetoshi Masutani, who sells stereo kits he designs himself for true audiophiles, finds prices of from several hundred thousand yen to 1 million yen for a single internal-external amplifier unbelievable. "We use high-quality parts that are several times the cost of the parts the manufacturers use, yet the cost of one of our amplifiers is a little less than 100,000 yen," says Masutani, shaking his head. "What do they do that they can make such expensive products?"

This April, Masutani attended a gathering of audiophiles held at the Tokyo Hands department store in Sannomiya, Tokyo. The subject concerned cords for speakers. One manufacturer brought a 1.5-meter speaker cord that sold for 10,000 yen and conducted a sound session. The cords were marked with arrows; the manufacturer claimed that there is a certain direction in which

the electrical current flows more easily and that the cord must be connected in a certain direction when hooking up the speakers.

On a stage, the manufacturer's representative extolled the superiority of the expensive cord in question as he played music and switched speaker cords. But Masutani did not think that the cord made any difference in sound quality; neither did a member of the Takarazuka Theater Group orchestra who was with him. "You say the cords have directionality, but how do you make them that way?" Masutani asked the manufacturer's representative. "When you stretch the copper wire to make the cords, does the end that appears first become the end that is to be connected to the speaker? Or is it the other way around?" The representative could not answer his question.

"Both the price and the cord were a bluff on the part of the maker," declared Masutani. "You can pay 100 yen per meter for a cord that will work perfectly well."

Transport Trucks With No Company Names

The middle-aged woman in a Mercedes came to the Daikuma discount house's Chigasaki store to buy a Persian carpet in October of last year. The store had been remodeled and was having a sale to mark its reopening and was selling Persian carpets that cost 1 million yen or more in the malls for 350,000 yen. The woman whispered that the carpet she was buying was the same as one being sold in a Yokohama mall. "Deliver it, please," she said to the clerk, "but don't use a truck with the name 'Daikuma' on it."

"We have many such customers," says Daikuma Managing Director (Shigefumi) Morita, smiling bitterly. "We stock 12 different types of commercially available wrapping paper without the Daikuma name or logo on it, and we use delivery trucks that are not marked with our company's name." In the United States, which Morita has visited many times to check on distribution conditions, consumers think it a sign of shrewdness to shop around for a cheaper price on identical items and even boast to each other of their prowess. It is Managing Director Morita's hope that Japanese consumers, too, soon reach the same conclusion in their thinking.

[1 Nov 89 p 1]

[Text] The Brandname Barriers

In the seats of a boisterous Tokyo stadium during the Japan Series, the vendor's cry of "Beer!" is never heard. Instead, one hears the names of the four leading brands shouted out. From January to September of this year, the best-selling brands were Suntory, Asahi, Kirin and Sapporo, in that order. We see the phenomenon of Kirin, the biggest brewer, in third place and fourth-place Suntory in the top spot.

Each Stadium Has Specified Brands

Even so, remarkably few professional baseball stadiums actually sell all four brands of beer—other than the Tokyo Dome, only Fujiidera and Nissei Stadiums, really. Koshien Stadium stocks only Asahi beer. Officials at Asahi say this is because they have a long-standing relationship with Koshien, but it is well known that groups of companies have favorite beers—Sumitomo favors Asahi, Kirin is Mitsubishi's beer and Fuji patronizes Sapporo. Koshien Stadium's owner is the Hanshin Electric Railway Co., Ltd., a Sumitomo affiliate.

The breweries usually ship their products to retailers through wholesalers called special agents. An agent, if so designated, gets both cheaper prices and faster deliveries from the breweries. However, the terminal retail stores have to stock the goods their customers want. There is no system of affiliated sales stores. Even so, coin-operated beer machines located in front of the stores often stock only a single brand of beer, partly for lack of space.

Although the battle over dry beer has seen some unusual changes in market shares in the beer industry, industry leader Kirin appears unlikely to lose its grip on 50 percent of the market, largely because of its reliance on powerful agents with many retail stores under their wings.

The Seibu Saison Group is proceeding with plans for building a new joint automobile showroom to open in Sapporo in May of next year. The group plans to display cars from all automakers with which it has a general agency contract, such as Alfa Romeo, Chrysler, Puegot and Citroen, but the Nissan autos, such as the Silvia and Laurel, which are sold by Seibu Group member Seibu Nissan Hambai, are not included in exhibition plans. The reason: Domestic auto dealers can only sell cars in geographical areas specified by their contracts. Seibu Nissan, whose "territory" includes northwestern Tokyo—Nerima-ku, Suginami-ku, etc.—cannot sell cars in Sapporo.

"This is the age of buying two or even three cars per household," says Shinji Hokujo, Seibu's Automotive Support Division manager. "We would like to handle autos in our malls as well, but the regional sales system is deep-rooted and it will be difficult to do so anytime soon."

Difficulties of Joint Supply

The rules of affiliation in the home electrical appliance industry are even stricter. Virtually all the neighborhood appliance stores are affiliated with one or another major manufacturer. What happens, then, when one breaks the barriers of affiliation?

Organizations such as the Shidai Household Appliance Cooperative Union (with Kimio Kondo as its chairman), created by 50 local appliance stores, have been procuring appliances on a collective basis for 10 years, in an attempt to accommodate customers who want to see

articles from different appliance makers. The co-op even has a 900-square meter display area located in a two-story steel-frame building—the first attempt at this undertaking anywhere in the country.

Nevertheless, the co-op even now cannot get supplies directly from major manufacturers such as Matsushita, Toshiba and Hitachi. It is instead supplied by cash wholesalers or large-volume dealers in Tokyo and Nagoya.

The volume dealers, because they order in bulk, can procure goods at about 60 percent of the standard retail price; retail stores affiliated with a major manufacturer have to pay about 70 percent even for appliances from their affiliated maker; they pay more for appliances from other makers. Collective ordering and collective display facilities are a means of satisfying customer demand and fending off the inroads of the volume dealers, who have made striking gains. Yet being supplied by the volume dealers puts them in an untenable position right from the start.

Price of Over Dependence

A similar situation also confronted the Nagano Prefecture Household Electrical Appliance Cooperative Union that started in November of 1987 as a prefecturewide joint order collective. The co-op offered to transport the goods itself and pay for them in cash—in advance if necessary. Yet even such favorable terms as these failed to forge a link with the appliance makers' sales companies.

Like the Shizuoka co-op, the Nagano organization gets its supplies from out-of-prefecture cash wholesalers. The co-op occasionally changes suppliers to shield them from pressure from the appliance makers who in turn supply the suppliers.

The manufacturers, for their part, cite reasons for their actions. Matsushita Electric Industrial Co., Ltd., maintains that business routes or relations get complicated and that they cannot provide full product information, sales promotions and storefront support, and that in the end the co-ops do not serve as viable retail outlets. Hitachi, Ltd., says it could not meet the basic conditions of doing business with the co-ops, such as how to ensure their credibility.

"Even discount shops deal with the manufacturers' sales companies, yet they won't deal with us," laments one co-op leader. "They treat us like stepchildren."

The price of over dependence on affiliates is high.

[2 Nov 89 p 1]

[Text] **Pattern of Unspoken Understandings**

"Japan's major municipal banks mix with officials of the Ministry of Finance [MOF] and periodically confer about interest rates. This is an anticompetitive action that should be raised in the United States-Japan talks on structural impediments to trade."

Thus on 27 October did Senator Murkowski (R-Alaska) first raise the issue of the uniformity of interest rates in Japan; the senator severely criticized such uniformity as "something that would not be allowed to happen in the United States." Ministry of Finance officials and municipal bank sources reacted with outward calm—one bank official called Murkowski's remarks a misunderstanding of the facts—but privately grew increasingly alarmed that sparks from the flames of congressional criticism of Japan had extended all the way to the relationship between the Ministry of Finance and financial institutions.

Collusion on Interest Rates

Theoretically, the prime rate at which the banks lend money to their best customers is supposed to be set by each bank separately, based on their own cost accounting. Actually, however, the prime rate is always the same at every bank. It is an open secret among industry sources that the Federation of Bankers' Associations of Japan's governing bank lays the groundwork for such uniformity while keeping in frequent contact with the leading banks, and in the end consults with the Ministry of Finance to set the rate. The people who play an important part as contacts and conciliators in this kind of seamless process are company employees charged solely with monitoring the Ministry of Finance, called MOF men for short.

Three finance-related bureaus—banking, international finance and securities—are located side by side on the fourth floor of the Ministry of Finance. From 10 o'clock on, when ministry officials assemble, the MOF men from banks, brokerages and life and casualty insurance companies start showing up with shiny company badges pinned to their lapels. They look into every section with an air of confident familiarity; in fact, they are quietly looking for a particular official.

"I drop by the Ministry of Finance an average of two to three times a day, and at least once even if I don't have any business to conduct," says Daiwa Bank's Tokyo Planning Department Assistant Manager Susumu Nagata, in his 3d year as an MOF man.

MOF men from the banks visit the Banking Section of the Banking Bureau first and frequently—this section is directly responsible for the banking industry—and then the General Affairs Section, which supervises all the bureaus; the Audit Section, which monitors the financial system; and finally the International Finance Bureau and the Securities Bureau. They approach the desks of the assistant section chiefs, who do most of the work, and talk to them. If the person they want to see happens to be in conference at the time, it is not unusual for the MOF men to wait 30 minutes or an hour. Couches and chairs have been placed in the offices and hallways to accommodate the MOF men, who smoke cigarettes and wait their turn.

MOF Men: The Fast Track

The whole purpose of an MOF man is to be a conduit of information between the Ministry of Finance and his own company. He has to tell the Ministry of Finance exactly what his company is thinking, and he has to get information on what the ministry is thinking back to his own company a little faster than it gets to other companies. This is why many companies concentrate company information in the hands of the MOF men, who are the elite, the fast track of the financial world.

All MOF men agree that building a relationship of trust is everything, and the firms make extraordinary efforts to achieve that end. They ready MOF men of appropriate ages and change the people they send if the persons they wish to see are ranked assistant section chief or section chief in order to match ages, for example; it is easier to drink and play golf if the people involved are of roughly the same age.

In the midst of financial liberalization, the MOF man's work has expanded from the old role of contacting and gathering information to, as one large municipal bank head put it, "discussing overall financial administration with Ministry of Finance officials and guiding the trend of their thinking in directions advantageous to one's own industry and even one's own company." Moreover, many MOF men say that these officials are at their posts for no more than a year or two, so that although they may have power they have practically no expertise; the MOF men see their task as one of making sure the government does not do anything foolish.

On the other hand, Banking Bureau officials say that it is they who educate the MOF men; traditionally the more ambitious nurtured themselves by arguing the leading issues of the day. Their futures were assured. At any rate they agree that the MOF men are indispensable to efficient administration.

"Quack Doctor and Patient"

The assiduity with which the MOF men cultivate close contacts with government officials may be unusual, but many other industries also have employees who concentrate solely on government. Pharmaceutical firms have Ministry of Health and Welfare analysts; the utility companies and automakers have Ministry of International Trade and Industry (MITI) analysts. Both spend much time around government offices and so retain virtually instantaneous access to government officials with a single telephone call.

The oil industry is also one such business. This April, as part of a relaxation of regulations, the production of such petroleum products as gasoline was liberalized. In fact, however, during this same period a Petroleum Products Market Trends Survey Committee composed of oil company vice presidents was set up as a sub-organ of the Petroleum Commission (an advisory organ of the minister of international trade and industry). The oil industry and MITI feared chaos in the market caused by over production, and in effect agreed on a range of production targets for each type of oil. "MITI and the oil industry are like a quack doctor and his patient," says Idemitsu Kosan Co., Ltd. Vice President Yuji Idemitsu. "They both like injections (regulations)." The pattern of unspoken understanding is here, too.

[3 Nov 89 p 9]

[Text] **The Primary Bank System**

CitiBank, a large American bank, acting on information that the Japanese textile firm A. was planning to acquire an American corporation, mobilized its New York headquarters M&A (mergers and acquisitions) team and industry analysts across the country. Three months later the headquarters team brought the fruits of their research to Japan; company A. showed an interest and was on the verge of starting negotiations with the American firm through CitiBank. Then the primary bank which company A. had informed of its move told A. that it could complete the transaction for a smaller fee.

Relations That Transcend Business

Caught in a dilemma between its primary bank's influence and what good business ethics required, A. apparently agonized over its decision; however, the outcome was clear. In an unusual step, the acquisition that CitiBank had worked to put together was continued by a leading municipal bank. That was 3 years ago.

"We didn't get 1 yen for our efforts, and A.'s primary bank did not contact us," says Goro Muto, general manager of the Corporate Division of CitiBank's Tokyo Office. "Foreign banks generally indicate what their fees are before they begin negotiations, and there's a line beyond which they cannot retreat. So if a Japanese primary bank is bent on saving face, we have no chance of winning." The ties between Japanese firms and their primary banks are not simply financial.

Suppose, for example, that a foreign bank draws on its strengths and tries to sell new financial products that can avoid exchange rate risks to Japanese companies. That information soon becomes common knowledge in the financial world through the primary banks, says Muto. Usually, "after we've done about three deals, every bank in Japan is offering the exact same product."

"People at the firms we deal with in the end say, 'Sorry, but if you were a Japanese bank,'" says Paul R. Hofer, resident manager of Credit Suisse, a major European bank. "Isn't it irrational for them to stay with the primary bank even when we offer them better terms and service?"

Hofer, who has been in Japan 8 years and knows it well, does not think that the "dry" American way of doing business is good; but even now he is far from an understanding of the relations that transcend business prevalent between Japanese companies and the banks.

American Firms Less Dependent on Banks

According to the Mitsui Bank's General Research Center, a primary bank has four characteristics: 1) It is a company's largest financier; 2) it has a larger proportion of a company's shares than any other bank; 3) it has stable, diffuse dealings with the company, including the loaning of personnel; 4) it bears loss risks out of proportion to its financial stake in the company in times of trouble, and thoroughly looks after the company.

In the United States, too, there are cases of small- and medium-sized firms having close relations with a specific bank, but larger corporations are less dependent on the banks because they have a long tradition of securing capital through the capital markets. Also, banks are prohibited from holding common commercial stock.

According to the center, in the last 10 years only a little over 20 percent of Japan's leading corporations changed primary banks, and that rate has been decreasing every year. "The proportion of loans from the banks has decreased, and so the banks' financial leverage with the companies has weakened," says Yasuyuki Hayase, the center's director for banking. "But the extent of contact between firms and their main banks has expanded and become more complex, through the provision of information and through asset management."

Orient Corporation, the leading credit company, has Dai-Ichi Kangyo as its main bank. When the Mitsui and Taiyo Kobe banks merge next April, the new Taiyo Kobe-Mitsui Bank will become the Orient's largest bank. But Orient President Yoshio Abe, who once worked at Dai-Ichi, calmly says that Orient will have Dai-Ichi increase its financing so that it can retain its position as Orient's leading bank.

TDK, the world's leading producer of magnetic tape, is also known as a financially sound corporation. Its 8 billion yen in short-term debt, if broken down by bank, looks like this: Saitama Bank, 1.98 billion yen; Sumitomo Bank, 1.96 billion yen; Mitsubishi Bank, 1.94 billion yen. That these three figures are evenly separated by 20 million yen is in fact significant.

When TDK first started making recording tape in the early 1950's as a totally unknown maker of electrical parts called Tokyo Denki Kagaku Kogyo (as it was called at the time), the Saitama Bank provided the money to build TDK's factory. A clear distinction is made between these three banks—Saitama, Sumitomo and Mitsubishi, who offered financing a little later on—and other banks that came in later, after TDK had gained notice as "a second Sony."

Silent Indication of Obligation

"Even among our three main banks, we make a distinction between Saitama and the others; we have an obligation to them for helping us, so they always have the largest financial share," says Matsuo Takeuchi, director and general manager of the Accounting Division. "It's not a matter of amount of money, but the 20-million-yen difference between them that's important." That such a small debt sum remains with what is for all practical purposes a debt-free company is a silent indication of the extent of that obligation.

TDK is a leading player in overseas development and is considered an internationally sophisticated company; yet its scruples reinforce Hofer's idea that business cannot be conducted in Japan according to Western concepts.

[4 Nov 89 p 9]

[Text] **Company Pay**

Thirty-year-old (Stefan Costusco), the American Manager of the Sales Division of the Tokyo branch of the British securities company Schroder, has been playing golf for a year. He found when he came to Japan last year that golf was indispensable to doing business in Japan, and he spends his days off playing golf with the bankers that are Schroder's customers.

Balking at Exhorbitant Prices

The company purchased employee memberships to a golf course in Shonan. The London headquarters office was at first reluctant to purchase golf memberships, what with a single such membership costing as much as tens of millions of yen.

In Britain, golf is a strictly private pleasure. Companies do not use it as entertainment, much less burden themselves with such high costs. In the end, however, the firm's chairman, an avid golfer, understood the need and OK'd the idea.

"In Britain and the United States, people also entertain clients on weekends and holidays," says Costusco, "but that usually means inviting them to your home for Sunday lunch. But 'when in Rome, do as the Romans do' is the basis of international business. Fees are high and sometimes you can't get a reservation, but it can't be helped."

The list of episodes surrounding foreign affiliated firms' attempts at entertaining Japanese-style is endless. A German bank looked into the possibility of purchasing golf memberships but the head office quickly dropped the idea. An American trust company bought such memberships, only to find they were being used exclusively by Japanese employees. Workers at an American securities firm say that spending on nighttime entertainment for clients is limited to $200. That sum can be easily surpassed in Japan, and employees have a very hard time justifying such expenses to the home office.

Million-Yen Paintings

The National Tax Agency reports that entertainment spending in 1987 totaled approximately 4.2 trillion yen, an increase of 6.1 percent over last year. At Mitsui & Co.,

Ltd., which every year tops the list of company entertainment expenses, such spending totaled 5.8 billion yen in 1987 but swelled to 6.2 billion yen in 1988. Even a simple materials maker like Mitsubishi Metal Corporation, according to President Takeshi Nagano, "is spending more money on gifts and entertainment, because diversification has expanded the number of customers we deal with."

The securities industry, which is dispensing with empty formalities and restraining the traditional outpouring of midsummer and year-end gift-giving, is nonetheless spending more money on parties celebrating promotions on the part of its customers. "Every year, personnel changes in the finance departments of our customers oblige us to send gifts to 400-500 people," says the manager of the corporate finance investment division of a large securities firm. "Each gift is supposed to cost no more than 30,000 yen, but with more rapid turnovers we are spending more money." Sometimes, when a finance officer becomes company president, million-yen paintings are given as gifts.

One section chief in his mid-forties, who works in the secretarial division of a large steelmaker, brings two company credit cards with him and visits with customers three or four times a week; he spends 40,000-50,000 yen on each person. He golfs on company business 40 or more times a year.

Such is life on the company expense account in "rich Japan," but it cannot be said that employees' private lives are rich. They may play golf for their own employment no more than three or four times a year. They live in company housing with a living space of less than 60 square meters. Time with the family might consist of taking the children to a nearby park on weekends or a trip to the company resort.

In short, an expense account is a kind of benefit for the salary man, whose income is completely tied up anyway. Without it, an unfair tax system would make it impossible for them to live. Such is the state of the elite employees of the big firms, who get a fleeting taste of the rich life as a company perc.

Reproducing the Company Man

Not that there have been no changes. At Marumitsu Securities, the company president has banned "second parties" for entertaining clients. Although it is impossible to effect a 100-percent ban on such activities, President Taro Kaneko says "they are a waste of time and money. Sing and dance and have a good time at the first party, then go home and rest up for a productive tomorrow. There's no such thing as being unable to get business if you don't have these second parties."

According to a survey by American Express International, while the Japanese spend over 4 trillion yen on company entertainment, Americans spend 1.4 billion yen and the British spend 300 billion yen. But Federation of Economic Organizations Managing Director Keijiro Koyama, who advocates cutting back on company entertainment expenses, points out that "British and American businessmen also take their close customers to country homes, take them sailing and spend a lot of money on them. But most of these expenses are out of pocket. Japanese businessmen are not highly remunerated, so they have to depend on their companies to take care of these expenses."

Not only is employee remuneration low, but the distribution of labor in Japanese companies is far behind that of the British and the Americans. Company profits have come to be divided among internal reservations geared toward equipment investment and entertainment expenses (which can always be reduced). Such is the structure of Japanese companies, in their expanded reproduction of "the company man."

[5 Nov 89 p 9]

[Text] **The Have-Nots**

The office of Susan Morgan, Tokyo representative of the British real estate firm Chesterton, consists of a single desk. The desk is surrounded by screens that separate it from others. At this desk, she types and makes telephone calls. Morgan pays almost 300,000 yen per month for this one-desk space. "When I came here 6 months ago and talked with London about the rent, they were shocked," she says. "But I told them it was cheap, considering the service."

Abnormal Land Prices

Morgan's landlord is Tokyo Executive Center, an affiliate of Mitsui & Co. Tokyo Executive Center rented the third and fourth floors of a small building in the Kioicho section of Tokyo, divided it into small rooms and booths, and sublet the spaces to some 28 companies. Two-thirds of those companies are foreign firms. Employees proficient in English provide secretarial services.

"Certainly the rent is high," says Chairman Daisaburo Nakao. "Still, we have had no vacancies over the past year. I think foreign firms have reconsidered the excellence of this system."

Morgan's husband is a diplomat at the British Embassy. Morgan herself was actually recruited by Chesterton after she came to Japan. "I have a husband, so they didn't have to pay for a place for me to live, making it cheaper to hire me," she explains.

Foreigners and foreign firms blink their eyes in astonishment at the high price of land in Japan, particularly at the abnormal land prices in the capital region. But those who feel the pain of skyrocketing land prices more acutely than anyone else are the Japanese themselves.

The place is Tokyo, Shibaura 4-chrome. This spring, on a section of the waterfront where new condominiums

and apartment buildings are being built, one after another, a striking 23-story apartment building was finished. It contains 132 three-room apartments, each with a floor space of 85 square meters. Every one of these apartments, which, if converted into condominiums would definitely cost 100 million yen apiece, is company housing. The Tokyo Electric Power Company owns 87 of them. Employee rents are 30,000 yen per month, 1/10th rents in the area.

"We wanted to change the image of company housing as old and cramped, and build homes in which people could live until they retired," says Tokyo Electric's Support Services Section Manager Masato Sakurai. "We want to make the Shibaura housing complex the model for our future housing efforts."

Financial System Utilized Less and Less

In 1987, at the height of the uncontrolled rise in land prices in the capital area, Tokyo Electric raised its limits on low-interest housing loans for employees from 20 million yen to 25 million yen; at the same time, it eliminated a 15-year limit on the use of company housing. The effect of the latter was immediate. There was a noticeable decline in the number of employees moving out of company housing and the approximately 3,000 Tokyo Electric residences in Tokyo were completely filled. The company's financial system was used less and less despite the rise in the borrowing limit.

Says Sakurai: "At a time when even places from which it is an hour's commute to the center of the city are going for 3-4 million yen per 3.3-square meter, the 25-million-yen limit is like throwing water on parched land. But even so, there are limits to people's ability to pay back such loans; there's no sense in increasing financing unreasonably. The old policy of helping people to become homeowners no longer makes sense."

Tokyo Electric is not the only company now racing to expand company housing facilities. Hitachi Manufacturing, for example, plans to spend 70 billion yen for 5 years starting in 1988 on new and refurbished company homes and singles' dormitories. Hitachi had budgeted 50 billion yen when it announced its plans last May, but fewer employees than expected left these homes and dormitories and the company has been revising its figures every 6 months.

Post-Retirement Housing a Problem

The Fujita Corporation and 12 other companies have established a preliminary commission to explore the feasibility of large-scale joint housing developments. At the group's first meeting in July, company welfare officers all pointed to the need to obtain post-retirement housing. The idea arose of having employees and their companies accumulate capital before employees' retirement and using these funds as a principle against which companies would offer low-cost post-retirement housing. Says Fujita Planning and Business Division Manager Kyosuke Yokouchi, who heads the group: "Unless we think that far ahead, there'll be little chance a salaryman will be content to live in company housing."

Whether or not it is desirable that the company involve itself even in the permanent housing of its employees, the idea is an answer to abnormally high land prices. However, only a very few companies can afford this option. According to a survey of housing policies among firms in the capital region conducted by the Japan Federation of Employers' Associations last November, although almost half of all firms with 5,000 or more employees planned company housing programs only several percent of firms employing less than 300 people planned such programs.

Skyrocketing land prices have given rise to a wide gulf between those who have land and those who do not. The recent boom in company housing promises to open a similar gap even among the have-nots.

Structural Impediments 'Start To Crumble'

OW2912113789 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 p 8—FOR OFFICIAL USE ONLY

[By Keikichi Honda, director and general manager of the Economic Research Division of the Bank of Tokyo]

[Text] While the big shadow of the Berlin Wall seems to be disappearing, another hidden shadow is becoming discernable. This new shadow is Japan's infamous structural impediments, at least from the American point of view.

During my recent trips to Europe, Asia and the U.S., I have sensed that there is undoubtedly a growing expectation that these impediments, or the "Great Japanese Wall," would also start to crumble. In European Community countries, it seemed there was an anticipation that the U.S. would be able to do the job right, pull out some bricks, so to speak, so that the EC could also benefit from the newly opened big market. Australia and New Zealand also expect they will be beneficiaries.

From our Korean friends there is an ambivalent feeling that they could also benefit, but they might have to follow the Japanese precedent soon. China seems to be too busy at the moment to be concerned about this Japanese issue. Indeed, this is nothing but a colossal stage of drama having two huge pillars named Structural Impediments Initiatives (SII) and Omnibus Trade and Competitiveness Act with its Super 301.

In the Japanese domestic field, politicians have been far too occupied in unproductive debates over the consumption tax; and here we are, preparing for the holiday season and a big election to follow. Negotiations in the SII talks started late last autumn, and the U.S. and Japan have already exchanged punches twice. Neither party was badly hurt. Yet there is a growing expectation that one side would have to surrender.

Naturally, negotiators are desperate to defend what they have been doing to their fellow citizens in the past 40 years. I can be sympathetic with them since the administrators have only done what they thought would be good for their countries. And, when such things are condemned as impediments, these administrators feel a need to defend their points.

Of course, negotiations can be very time consuming. But meanwhile, "time waits for no man," and neither does statistical data. Now, the October U.S. trade figure reveals that, of some $10 billion deficit for a month, just one-half is with Japan, while all of Japan's latest trade surplus ($3.5 billion in November) is a surplus with the U.S. Japan is balanced with the whole rest of the world. These numbers need not be explained nor should be excused. People are growing impatient with such numbers being shown for so long. This situation has not improved despite many talks. But the tiny sounds of impending change can be heard.

A supercomputer deal is one of the three items that the U.S. Trade Representative [USTR] Carla Hills listed as targets of Super 301 this time. Referred to as an "academic discount," a notorious 80-percent discount to educational institutions used to be taken for granted. Since American suppliers could discount only up to 30 percent, they were not able to sell their products to educational institutions in Japan.

Recently, the Japanese government, in the process of preparing a new fiscal budget, decided to allocate more funds to those educational institutions so that they could pay more for the acquisition of such computers at only a 30-percent discount, instead of 80 percent. Thus, a very concrete measure has been taken. Obviously, this will ease the Super 301 issue regarding supercomputers.

As a matter of fact, Fujitsu Ltd. has contracted a supercomputer with the Japan Atomic Energy Research Institute at a 25-percent discount price. But Cray Research is still complaining that Fujitsu, although offering the discount, reduced the official price, so the actual amount did not change too much. But if Fujitsu can really provide the product at such a price then it could be a fair price.

As another example of growing cracks in the wall, Japan's Fair Trade Commission has 454 staff members, compared to 1,700 in the U.S. This shortage of human resources has resulted in less prosecution and more lenience in examining unfair trade issues. But thanks to an increase in budget, 10 examiners will be added in Japan's FTC. This is a 10-percent increase from the existing 92 examiners; a small but positive step forward. These little sounds emanating from the wall, we hope, will reach a crescendo as all the bricks fall.

What about the other side of the Pacific? I had the opportunity of exchanging views with a wide range of professionals in Washington, New York and Chicago a couple of weeks ago. Needless to say, they were all interested in hearing more of these small sounds. Also, they recognize that Super 301 is a political tool, highly domestically oriented, as the SII is a symbolic tool.

SII may have different implications for each of the two nations. To Japan, it is in part a matter of administrative nature that can be fixed up by the bureaucrats, but the other part stems from traditional business practices that have a long history in this country, like some European countries, such as the main bank system. To Americans, it is mostly macroeconomic issues.

The USTR correctly proclaimed that foreign trade barriers account for only 20 percent of the American trade deficit while the remaining 80 percent stems from American macroeconomic factors. Those professionals are all well-informed people, and they think that neither SII talks nor Super 301 will result in a large reduction of the trade deficit. But, they are talking about principles and a way to calm domestic political frustration, mainly in the U.S. If this is the case, we should pick up a megaphone and amplify the little sounds emanating from the wall.

Article Analyzes New Dimension in Trade Friction

OW3112220589 Tokyo ASAHI EVENING NEWS in English 30 Dec 89 p 5—FOR OFFICIAL USE ONLY

[Article by Ken Koshiba: "Japan Is the New Bogeyman—Trade Friction Reaches New Dimension"]

[Text] "The unique relationship, like a dry bone, has become brittle," an American scholar said of the increasingly strained ties between Japan and the United States. "It will snap if too much pressure is applied."

During the past year, plenty of pressure has in fact been applied but it didn't snap. Yet the danger was there, as tensions ran high and perceptions shifted on both sides of the Pacific.

Many Americans viewed Japan, not Russia, as the "bad guy," while many Japanese saw America as a "bully boy" brandishing a trade weapon. As a Japan watcher put it aptly, geopolitics has been replaced by geoeconomics.

With the communist empire collapsing like a house of cards, the military threat from Moscow diminished, if not disappeared. On the other hand, the imaginary economic threat from Japan—America's new bogeyman—loomed large.

A BUSINESS WEEK-Harris poll in August found that 68 percent of Americans considered Japan the economic juggernaut as a greater threat to America than Russia the military behemoth.

Japan bashers, or "revisionists," played their part in building the "bad guy" image. The likes of James Fallows, Clyde Prestowitz and Karel Van Wolferen all planted essentially the same picture of Japan—an adversary, not a friend, that plays the game by its own rules.

The message: Japan's trade practices are incompatible with the interests of America and other free-marked democracies. Therefore, to borrow from Fallows' celebrated article in THE ATLANTIC, Japan must be "contained."

The business of bashing turned into a two-way street as the grinding rhetoric of Japan bashers was countered by the straight talk of America bashers. The case in point: the unauthorized translation of "The Japan That Can Say No," co-authored by Akio Morita, the Sony chairman and Shintaro Ishihara, the Liberal-Democratic hard-liner who could become Japan's prime minister in the future.

The manuscript, a testament to the rise of Japanese nationalism, stirred American fears that Japan might be seeking economic hegemony. Some felt that the book contained a disquieting mixture of arrogance and racial prejudice.

The mutual bashing, like ripples in a stream, concealed deeper currents in bilateral economic relations, particularly in trade, investment and technology.

The trade gap, still dangerously wide, continued to poison the overall relationship. The American Government, under strong pressure from Congress, devised a "result-oriented" policy and branded Japan an "unfair trader."

American unilateralism met stiff resistance from the Japanese, who felt that they were being forced to make one-sided concessions under threats of sanctions. The Japanese Government refused to negotiate, but sanctions were held off as the two sides agreed to tackle some of their fundamental problems, such as savings and investment.

In the area of direct investment, cash-flush Japanese companies rushed to the United States snapping up prime real estate and buying up big-name corporations. Examples: Sony's purchase of Columbia Pictures and Mitsubishi's buyout of Rockefeller Center.

In the eyes of many Americans, these investments came not only as a reminder of the "decline" of American industry; the deals also wounded America's pride because both Columbia and Rockefeller Center symbolize American culture.

The Japanese incursion into the U.S. investment market was in striking contrast to the nearly total absence of foreign acquisitions of Japanese companies. The only notable case was the purchase of the ailing Sansui Electric by Britain's Polly Peck International.

The lack of two-way investment added fuel to the mergers and acquisitions controversy surrounding an unsuccessful bid by corporte raider T. Boone Pickens to win a seat on the board of Koito Mfg. Co., the auto parts maker will close business ties to Toyota. The largest Koito shareholder, Pickens accused the firm and its allied shareholders of trying to keep him out because he is a foreigner.

Nationalism crept into the arcane world of high technology as the two economic giants vied for supremacy in such strategic areas as aircraft, supercomputers, semiconductors and high-definition television. What was emerging was a new brand of nationalism—pundits called it "techno-nationalism."

The row over the FSX, Japan's next fighter plane, is a good example. Japan—more precisely, engineers at Mitsubishi—wanted to make a Japanese fighter, much as they made the famous "zero fighter" during World War II. America, wary of Japan going its own way, opted for joint development, but the "hawks" criticized the deal as a "sell-out" that could rob America of its cutting edge in aircraft manufacturing.

All these developments and more make it disturbingly clear that "economic friction" between the two nations is reaching a new dimension, a stage where greater efforts must be made on both sides to manage tensions and prevent the "unique relationship" from snapping under pressure.

Editorial Reviews Changes in U.S. Ties in 80's

OW2412091889 Tokyo THE JAPAN TIMES in English 23 Dec 89 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Road to a Damaged Partnership"]

[Text] The 1980's saw a sea change in the bond between this country and its most important ally, the United States. If the last 12 months have been a time of exuberant rejoicing in many other parts of the world, 1989 also witnessed what many commentators have described as the worst crisis in Japanese-American relations since the autumn of 1941. That is an exaggeration, but the climate has altered over the North Pacific during the past five years, and not for the better.

What has gone wrong? The seeds of the current trouble in the Japan-U.S. relationship were planted at the end of World War II. America's victory in the Pacific was decisive, and therefore misleading. There are, for better or worse, four major powers in the Pacific: the U.S., the Soviet Union, China and Japan. In 1945, however, there was only one: the U.S.

But given the distribution of resources, population and economic vitality in the Pacific, it was inevitable that this American monopoly on power was doomed to disappear. Once regional peace was restored, China was going to put its house in order, the Soviet Union reclaim its status as a Pacific power, Japan rebuild its economic strength.

America, in its wisdom, did little to prevent this return to normalcy and, in Japan's case, Washington actively assisted the process of economic recovery. Later, after

the immediate postwar period had ended, three goals came to dominate U.S. diplomacy in the Pacific: 1) the nurturing of regional stability, 2) resistance to communism, and 3) the maintenance of American power and influence.

Looking back now on the postwar history of the Pacific, it appears that the danger that most worried American policy-makers—communist expansionism—was the least important. But if America's anticommunist crusade was an expensive folly, the management of regional stability showed U.S. leadership at its best. The Pax Americana established in the Pacific in 1945 was an undisguised blessing for which the whole region should be grateful.

The power question was more subtle. Largely because of World War II, power has been defined since 1945 almost exclusively in military terms. This was a damaging misconception but it does explain why the recent row over the FSX jet fighter occasioned a turning point in Japan-U.S. ties, and not the endless chapters of trade friction that have haunted this country's relations with America since the late 1950's.

But all power is not military. True, fleets of aircraft carriers or strategic bombers make a more compelling picture than a new line of electrical appliances or a revolution in banking services, but economic power—the ability to make and market a product—finally counts more.

For too long the myth of World War II, that military strength is power, obscured the steady and probably irresistible shift of economic might from the U.S. to East Asia, and to Japan in particular. The FSX fighter wrangle was important only because it destroyed this myth.

We have been picking up the pieces ever since. Because power is so deeply linked to national self-regard, the new power question has aroused passions that outweigh the impact of any set of trade statistics. It is this hurt rather than any rational argument that has made the so-called revisionists so influential in America.

But the parallel Japanese discovery that cash-register power translates into global influence has fueled an equally damaging passion here: hubris. Left untamed, these emotions—America's hurt and Japan's price—could destroy the postwar order in the Pacific. This must not happen.

But how can such passionate feelings be tamed? First, the truth about the shift of power from the U.S. to other nations must be squarely accepted on both sides of the Pacific. This was an inevitable process which has nothing to do with national virtue or failure. America's opinion leaders must now come clean with the U.S. public on this issue.

Second, the political and economic leaders of both countries must learn to manage this transition. This is crucial because none of the policies currently in play—not Super 301 or the Structural Impediments Initiative or defense burden-sharing—is going to reverse the flow of economic power from the U.S. to Asia.

The 1980's was the decade that discovered the truth about economic power. We cannot now unlearn this truth. But we can learn to rein in our more destructive passions and get on with the task of creating the kind of prosperity in which all the region's peoples can share and take decent pride.

MITI Prepares for Machine Tool Talks With U.S.

OW2212142889 Tokyo NIHON KEIZAI SHIMBUN in Japanese 17 Dec 89 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] The Governments of Japan and the United States have agreed to review the Voluntary Restraint Agreement (VRA) on exports of Japanese machine tools to the United States, in effect since 1987. Negotiations will open in Tokyo next January. The Ministry of International Trade and Industry [MITI] intends to clarify the definition of "semifinished products" covered by the VRA and to propose that parts that are difficult to distinguish from semifinished products be excluded from the agreement.

The only items covered by the current VRA are finished machine tools and kits (semifinished products). However, since the difference between kits and parts has not been clarified, Japanese exporters are complaining that at the time of shipment, it is hard to tell which export items are covered by the agreement. Since Japanese companies have set up assembly plants in the United States and have shifted to exporting semifinished products and parts, the machine tools industry thinks that the ambiguous definition will become a major issue in the future.

A Japanese proposal will be made in response to such complaints. The proposal will define kits as a collection of parts and will recommend that only kits exceeding a certain percentage of Japanese parts be subject to the VRA. It recommends that kits with many foreign-made parts be excluded from the agreement. It will assign points according to the importance of parts, and kits with more than 12 points will be subject to the VRA. For instance, if an oil pressure system is Japanese-made, it will be assigned 1 point; if the main motor is Japanese-made, it will be assigned half a point; and so forth.

The U.S. side is concerned that the expansion of parts exports by Japanese companies might be a way to circumvent the VRA. Last year, the U.S. Commerce Department indicated to Japan that it would consider products made by Japanese companies in the United States Japanese exports and subject to the VRA if they do not contain a certain percentage of U.S.-made parts. The Japanese side believes that moves demanding procurement of locally made parts will grow stronger in the

United States and intends to refuse such demands for local procurement during the negotiations in January.

Spokesman on U.S. Caution Over Revenue Act

OW2112185089 Tokyo JIJI in English 1355 GMT 21 Dec 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, Dec. 21 (JIJI PRESS)—A Japanese Foreign Ministry spokesman said Thursday Japan hopes the U.S. Government will be cautious in exercising the revenue reconciliation act, which was signed into law by President George Bush Tuesday.

Taizo Watanabe, director-general for Public Information and Cultural Affairs, said the act contains provisions which may restrict the free flow of foreign investment into the United States. It may also be problematical in light of the Japan-U.S. tax convention, he said.

Under the act, interest paid to U.S. corporations from related companies existing in the United States can be basically be counted as a deductible expense. But interest payment by companies existing outside of the United States cannot be deducted from tax under certain conditions, ministry officials said.

The provision makes it difficult for affiliates of foreign corporations doing business in the United States to receive financial assistance from their parent companies outside of the United States in the form of loan, they said.

The revenue reconciliation act also requires a U.S. corporation with a foreign shareholder having an equity share of 25 pct or more to keep records of transactions with such a shareholder. The obligation would put a heavier burden on U.S. affiliates of foreign corporations than on purely domestic corporations in the United States, the ministry officials said.

U.S. Move on PRC Sanctions, Satellites Welcomed

OW2112212989 Tokyo JIJI in English 1431 GMT 20 Dec 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, Dec. 20 (JIJI PRESS)—Japan welcomes U.S. President George Bush's decision to ease sanctions against China and approve the export of U.S.-made satellites to the communist nation, a high-ranking Foreign Ministry official said Wednesday. On Tuesday, Bush authorized the sales of three U.S. satellites to China and defroze Chinese loans by the U.S. Export-Import Bank.

The ministry official said Japan does not think the U.S. move means Washington is ready to lift the sanctions it imposed on China following Beijing's military crackdown on pro-democracy movement in June. But the U.S.-China situation is heading for a good direction and Japan hopes it will develop into a full-fledged restoration, he said.

Japan also wants to improve ties with China while keeping close contact with the United States, he added. The three satellites, made by Hughes Aircraft Co. of the United States, will be sold to Australian and Hong Kong firms and will be launched by a Chinese rocket.

U.S. Intervention in Panama Termed 'Bad Policy'

OW2312005089 Tokyo ASAHI EVENING NEWS in English 21 Dec 89 p 3—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 21 December editorial: "Bush Blunders in Panama"]

[Text] The U.S. Army has started advancing into Panama, the small Latin American nation where the Panama Canal is located. The superpowers summit in Malta has just been concluded successfully, democracy is gaining momentum in East Europe, and the whole world is moving toward detente. We must say that the U.S. action in Panama goes right against this global current.

In explaining its action, the United States claims that it acted in order to protect some 10,000 U.S. servicemen and other nationals in Panama, as well as to arrest General Manuel Antonio Noriega, who has been charged in the United States with violating drug-control laws.

Furthermore, according to the U.S. Government, it was asked to intervene by Guillermo Endara, whose government the United States endorsed after the latest Panamanian presidential election.

But it is highly questionable that the global community will buy this U.S. explanation. The difference in strength between America and Panama is like that between an elephant and an ant. The United States should not be surprised if its advance into Panama is regarded by the rest of the world as a blatant invasion of Panama's independence and sovereignty.

Central America is the "backyard" of the United States, and Panama lies right in the center of this yard. To the U.S. Navy, the Panama Canal is of crucial strategic importance for passage between the Atlantic and the Pacific. Should Panama ever side with the Soviet Union, as have Cuba and Nicaragua, this will amount to America's losing its backyard.

The U.S. Government long used Noriega as a CIA collaborator. This demonstrates the basic U.S. stance of utilizing dictators as long as they are anti-Communists.

But Panama has taken a step closer to the socialist countries since relations with Washington began worsening due to America's growing drug problems and to rising nationalist sentiment in Panama. It seems that the United States could not ignore Panama's tilt toward the Eastern block.

It is said that the U.S. invasion was triggered by the shooting death of an off-duty American soldier, but the

invasion should be seen as a product of the deterioration of the U.S.-Panama relationship.

The U.S. Government has kept up economic sanctions against Panama since March last year. Contrary to expectations, however, Panama has sustained itself economically.

Congress criticized the Bush administration for not supporting the group that attempted a coup d'etat in October. It seems that the Bush administration found no choice but to resort to the last means because of its bitter experiences with Noriega.

However, this was not a wise choice. Even if the situation were brought under control through military power and Noriega expelled from the country, the action would only serve to increase anti-American sentiment among the Panamanian people. The Central American governments that have so far criticized Noriega will likely turn around and oppose the U.S. Government's policy. The prospect of resolving regional conflicts in Central America that was discussed at the Malta meeting between Bush and Gorbachev will grow less likely. The actions could go so far as to put a damper on the progress made in maintaining international peace and relieving tension.

We have criticized the dictatorship of Noriega and his involvement in drug smuggling. In particular, the use of violence to intervene during the presidential campaign held in May goes against every principle of democracy. However, the use of military force by a major power to bring another nation under control cannot be permitted.

Japan has close economic relations with Panama through its use of the Panama Canal and the large number of Japanese vessels operating under the Panamanian flag. At the ame time, Japan has the responsibility of striving to establish rules respecting the sovereignty of all nations in international society. Friendship with the United States is important, but the Japanese Government must speak up and criticize a bad policy.

Editorial Hopes Panamanian Confusion Ends Soon

OW2412114689 Tokyo THE DAILY YOMIURI in English 23 Dec 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 22 December editorial: "U.S. Intervention in Panama"]

[Text] The United States militarily intervened in Panama on Wednesday. It is our hope that the confusion in Panama will soon be brought to an end without becoming a prolonged armed conflict.

Deterioration in U.S.-Panama relations began in February 1988 when suspicion over Panamanian strongman Gen. Manuel Antonio Noriega's involvement in drug trafficking led to his indictment in the United States. The U.S. Federal Grand Jury at that time asked the Panamanian Government to extradite Noriega on charges of receiving more than $4.6 million in bribes from Colombian drug rings operating illegally in the United States.

In response to this, Eric Arturo Delvalle Henriquez, the Panamanian president, dismissed Noriega from his post of Defense Forces commander. But the president was in turn removed from office by the country's national assembly.

Since then, the U.S. Government had continued to enforce economic sanctions on Panama to press for Noriega's withdrawal from politics as well as democratic reforms in the country.

However, the general has succeeded in suppressing anti-Noriega democratic campaigns, including an attempted coup d'etat to overthrow the Panamanian Government under his control.

U.S. Interests in Jeopardy

When opposition leader Guillermo Endara won the presidential election in May, Noriega, backed by the militia, nullified the election. On Dec. 15, the Noriega-controlled national assembly declared a state of war against the United States.

The next day, a Panamanian soldier shot to death an unarmed U.S. military officer in plain clothes. Another U.S. military officer and his wife were abducted by Panamanian troops.

In the eyes of the United States, Noriega is a suspected drug trafficker doing whatever he likes as Panamanian dictator.

The United States must return control of the Panama Canal to Panama at the end of 1999 based on a treaty signed between the two countries. It is understandable that Washington questions whether neutrality of the canal, located at a point significant to U.S. security, can be assured while in the hands of such a dictator.

The question is whether or not the U.S. Government can justify its military invasion of Panama through those reasons alone.

Rights of Self-Defense

It is possible for the United States to insist that the murder of the U.S. military officer was an "armed attack" against a U.S. citizen and justify its military action as self-defense.

Considering the state-of-war declaration made by Panama and the fact that the United States had secretly been warned of further attacks on U.S. citizens, we can understand the reaction.

However, we cannot endorse military movements made for the sake of protecting democracy and to topple a "criminal suspect" from his leadership, though the purposes do seem righteous.

We hope the United States withdraws its troops from Panama as soon as possible. Prolonged military operations would [illegible] and South American nations, which have bitter memories of military-backed U.S. diplomacy. Also, it would touch off Panamanian antipathy, making the situation more confusing.

'Justifiable Grounds' for U.S. Action in Panama

OW2612144189 Tokyo SANKEI SHIMBUN in Japanese 22 Dec 89 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "U.S. Military Action With 'Justifiable Grounds'"]

[Text] We cannot give unconditional support to settling difficult problems by military action because we feel that all crises should be settled through diplomatic negotiation. However, we regard the recent U.S. military action against Panama as having "justifiable grounds" in several respects.

President Bush explained in his 20 December speech that "the U.S. objectives are to protect the lives of U.S. nationals, to defend democracy in Panama, to eliminate drug trafficking, and to defend the Panama Canal."

The point at issue lies perhaps in whether or not the military action taken for these objectives is in line with international law.

General Noriega announced on 15 December that Panama was in a state of war with the United States. If this announcement is taken as a declaration of war, then the United States can naturally prepare for war in accordance with international law.

President Bush continued to explain as follows: "On the very day following the declaration of war, a defenseless American soldier was shot to death, another was wounded, a third detained, and the wife of another American soldier was questioned and threatened with sexual abuse. Gen Noriega's reckless threats and attacks on Americans in Panama has created an imminent danger for the 35,000 Americans in Panama. As President, I have no other task more important than to protect the lives of American citizens. I have ordered our forces to protect the lives of Americans, to capture Gen Noriega, and to bring him to trial in the United States."

If President Bush's explanation is viewed as meaning that the United States used arms in an exceptional case, as stated in the UN Charter—that is, the United States is forced to employ its right to self defense in protecting the lives of Americans in Panama—then this will serve as one of the justifiable grounds.

Regarding the defense of the Panama Canal, the 1977 treaty stipulates that the United States must turn over its monopolistic management of the canal to Panama by the year 2000. However, prior to this action, the canal's supreme administrator, currently an American, must be a Panamanian national by 1 January, that is, around 10 days from now. The Panama Canal is still even now a life-or-death trade route for many nations. This explains why approximately 13,000 U.S. troops are stationed there—to defend the canal.

In this connection, the U.S. side felt that the appointment of a Gen Noreiga-backed individual as the canal's supreme administrator must be avoided. It was at this juncture that Gen Noriega unilaterally declared the state of war. If this declaration is seen as a serious danger to the Panama Canal, then the action can be explained as an emergency dispatch of troops to defend the canal and to protect the lives of Americans. Thus, the action will be justified.

The recent military action was taken after mature consideration. British Prime Minister Thatcher immediately stated her support for the action, which also has secured extensive support in Congress. It has been noted that the action has no legal problems in connection with such laws as the law on the right of declaring war.

The United States has offered a $1 million prize for rounding up a nation's general. Even if the general is regarded as a major drug trafficker by the U.S. side, the action may perhaps be seen as something out of a Western that ignores the feelings of a small nation.

The United States should now be asked to settle the problem, to withdraw its troops at an early time, and to assist Panama in promoting genuine democratization.

Okinawa Air Traffic Control Jammed by Exercise

OW2212151489 Tokyo ASAHI SHIMBUN in Japanese 20 Dec 89 Evening Edition p 18—FOR OFFICIAL USE ONLY

[Text] The U.S. Marine Corps [USMC] stationed in Okinawa and other U.S. forces recently held the "Beach Crest '90" joint exercise. It was disclosed on 20 December that a very unusual problem occurred during the exercise; that is, jamming occurred in the Southwest air region where civil aviation routes of both domestic and international airlines are concentrated and that the radar air traffic control was suspended temporarily during the exercise. In this connection, the Transport Ministry immediately requested the U.S. forces to launch an investigation and requested that an explanation be made as to whether the training included the use of jamming radio waves. The "Beach Crest '90" is a special military training exercise conducted through setting up a temporary training air zone in the air traffic area used for civil aircraft. Thus, the demand for a halt to the exercise will be further heightened.

According to the Ministry's Air Traffic Control Department [ATCD], the jamming occured for about 2 hours from around 1130 to past 1300 on the evening of 20 December. Jammed pictures appeared on the air traffic controller radar screens off and on at the the ATCD's 3 monitoring stations located in Yaedake (on the main island of Okinawa), Yamami, and Miyako. Thus, it became difficult to confirm the sightings of civil aircraft, and it was impossible to provide radar service. Therefore, the ATCD switched its civil aircraft traffic control to the system using radio communications.

The radars at these three stations were switched to their respective microwave frequencies to confirm the locations and flight routes of the aircraft in flight with the use of radarscopes at the ATCD in Naha City. No jammed pictures have appeared on the screens of the radarscopes recently.

On noticing the trouble, the ATCD immediately notified the USMC Headquarters, where the joint command of the four branches of the U.S. forces is located, about the jamming and requested that an investigation be launched into the source. The jamming disappeared soon thereafter.

In reply to the question as to whether the training was held in such a way as to cause jamming, the information department of the USMC in Okinawa replied as of 20 December that "we have heard of no training that would ever cause such jamming."

According to those concerned with aviation, attack planes assigned with offensive tasks such as bombing may generate microwaves to prevent their own pictures from appearing on the enmey's radar screens. If the frequency of the jamming electric waves should coincide with the frequency of the radars used for air traffic control of civil aircraft, then it would have serious influence on these control radars. Reportedly, nothing about the frequencies was mentioned at the prior consultations held between the Transport Ministry and the U.S. forces.

Hiroki Saito, head of the Naha Air Traffic Control Department, remarked: The civil aircraft flights were not influenced in a substantial way. However, we can say that the radars were deprived of their "eyes" temporarily. We cannot determine that the jamming came from the U.S. forces, but there is such a possibility. In this connection, we have asked the U.S. Forces Command for the facts and we are still waiting for their answers.

University Approves Research at U.S. Army Lab

OW2412135889 Tokyo MAINICHI DAILY NEWS in English 23 Dec 89 p 12—FOR OFFICIAL USE ONLY

[Text] An assistant from Hokkaido University spent two years studying at a U.S. military installation with permission from his department faculty, according to information that has been obtained by MAINICHI SHIMBUN.

Sending a public servant to research at a military facility comes in conflict with a declaration made by the Science Council of Japan in 1967, and runs counter to the philosophies of several public institutions that refuse to have contacts with anything militarily connected.

The chairman of the Science Council of Japan, Jiro Kondo said: "It is hard to draw the line between research for peaceful purposes and that for military objectives simply based on the content of the study. Even basic research can be used for military reasons."

The assistant commented that "My study abroad at the U.S. research facility was more or less connected with the military, but the costs were covered by the U.S. government, not directly by the military, so I thought it was okay."

Kondo said: "If the research this time was carried out on a military facility it lacked prudent thinking. If he had gotten involved in military research, it would have been deplorable."

The costs for his study were covered by the National Research Council, but since he gained formal approval from the department faculty, his study is in conjunction with his work at the university and is not considered a leave of absence.

Furthermore, he said: "As long as the researcher has a will devoted to finding cures for sicknesses and disease, I do not think it makes any difference whether the topic is controversial."

The assistant, from the veterinary department of Hokkaido University, studied at the USAMRIID, an institute researching infectious diseases, on Dedrick Army Base in Frederick, Maryland, known as the center for biological weapons research.

At this facility, he intended to unravel the mechanisms involved in the symptomatic hemorrhagic fever virus of the kidney.

The subject the assistant studied deals with the same virus for which the Japanese Army conducted experiments on humans during the Second World War to collect data for biological weapons research.

For the assistant specializing in this virus the leave of absence gave him the opportunity to study under the foremost scholar in his field, who works at the USAMRIID.

The results of his studies were published in a british scholarly journal on virology this year in which he dealt with the glycoprotein that covers the virus.

In the paper he argues which part of the glycoprotein cover causes people to catch the disease, and which part counteracts the poison of the virus.

The assistant said: "I have made the results of my studies public, and I feel this is a display of my conscience."

According to a biology specialist, the assistant's study can develop into a cure for the virus, but at the same time discoveries on this front could provide a defense against a biological weapon that the attacking side could use to protect itself.

"It is logically possible to develop a powerful biological weapon that can release its pathogenic potential and multiply in an environment where viruses usually cannot survive," said the specialist.

The specialist warned that no matter how noble one's purposes for studying in this field, the possibility of the knowledge being used for military reasons is always there.

The Science Council of Japan, the Biology Council of Japan, and the University of Tokyo all have policies or have made statements opposing the furthering of research for military purposes.

Meanwhile, the Department of Veterinary Science at Hokkaido University announced plans Friday to develop a set of guidelines for examining requests to study abroad.

The action to develop a set of guidelines comes in response to the revelation that an assitant was given permission by the faculty to study at a military installation in the United States.

Also to be examined is the fact that the faculty granted the permission and approved his study abroad without due debate on the issue of allowing a scientist to research a subject that has a military aspect to it, and furthermore that he studied the subject at a military installation.

Kondo said: "Initially the individual must conscientiously make a decision whether the research is military related or not, however there are times when researchers get all wrapped up in the topic and do not know any better."

Soviet Union

Latest Effort Toward Japan-USSR Treaty Fails

OW2212045889 Tokyo THE DAILY YOMIURI in English 20 Dec 89 p 1—FOR OFFICIAL USE ONLY

[Text] A Tokyo meeting of Japanese and Soviet working-level groups aimed at concluding a bilateral peace treaty ended in failure Tuesday, a Foreign Ministry official said.

The fourth working-level meeting on the pact was held at the ministry's Iikura Guest House. It lasted six and a half hours.

Discussion centered on the historical and legal aspects of the Soviet occupation of the four islands off Hokkaido which comprise the northern territories.

The Japanese side, led by Deputy Foreign Minister Hisashi Owada, stressed that the Habomai, Shikotan, Kunashiri and Etorofu islands must be returned to Japan before the two nations can sign a treaty ending hostilities dating from World War II.

Owada also stressed that economic assistance to the Soviet Union is contingent on resolution of the issue.

However, the Soviet delegation, led by Deputy Foreign Minister Igor Rogachev, said that Japan should recognize postwar "reality" and not let discussions on the peace treaty be derailed by "groundless criticism" over the islands.

The Japanese side declined the Soviet proposal that each side show the other its draft of the pact. It was the first time the Soviet side had made such an offer.

Japan maintains the Soviet Union illegally occupied the islands at the end of World War II. The Soviet Union says Japan abandoned ownership of the islands under the San Francisco Peace Treaty of 1951 in which the Kuril Islands were ceded to the Soviet Union.

The Japanese officials said the four islands are not part of the Kurils and that a principle of the treaty prohibited countries from expanding territory after World War II ended.

Both sides, however, agreed the dispute must be resolved. The Japanese side also said it will continue to consider Soviet requests for economic assistance.

The outcome of the meeting disappointed observers who had expected to see progress on the territorial dispute in advance of the Soviet foreign minister's scheduled visit to Japan in March.

Politburo member Aleksandr Yakovlev recently said in Tokyo that a "third way" exists to achieve improved relations between the two countries through dialogue, particularly through the working-level groups.

Established in December 1988 during Soviet Foreign Minister Eduard Shevardnadze's visit to Tokyo, the working groups have held three previous meetings to discuss the proposed peace pact between Japan an the Soviet Union. The most recent meeting was held in Moscow in April.

The next meeting will be held either in Tokyo or Moscow in mid-March before Shevardnadze's visit to Tokyo.

Editorial Views Talks Failure

OW2312104189 Tokyo THE DAILY YOMIURI in English 22 Dec 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 21 December editorial: "Unsolved Islands Issue"]

[Text] The fourth meeting of the Japan-Soviet working group set up to negotiate a peace treaty failed to make

any progress in Tokyo because of the persistent confrontation over the territorial issue.

One new development was the Soviet proposal for the exchange of peace treaty drafts. It was only natural that Japan rejected this idea. In concluding a peace treaty, the three main tasks are normally terminating the state of war, disposing of reparations and settling territorial claims.

The first two of these tasks were completed in the 1956 Japan-Soviet joint statement. Only the territorial issue remains to be resolved.

In a peace treaty, mention must be made of friendly bilateral ties and economic cooperation to promote "amicable" relations. But how can amicable relations be established without settlement of the territorial issue. It is not possible to settle other issues without reaching agreement on the territorial issue first. To do so would mean the shelving of the territorial question.

Rigid Soviet Stance

It was noteworthy that the Soviet Union showed no signs of modifying its rigid stand on this issue and no new proposal was forthcoming. Japan naturally had high expectations for the Tokyo talks because of the dismantling of the Cold War structure. Also, Soviet Politburo member Aleksandr Yakovlev last month remarked in Tokyo there might be a "third way" to resolve the issue.

There were some who advocated that Japan review its own rigid stand on the territorial question to respond to the Soviet Union's desire to improve relations. However, the unyielding position of the Soviet Union in the Tokyo talks proved how dangerous it would be for Japan to take such action based on one-sided expectations.

The Soviet Union made it abundantly clear that it will not accept Japan's request for the return of the four islands off Hokkaido. It reasserted its sovereignty over the islands based on decisions reached at Yalta in 1945. The Soviet Union called on Japan to "acknowledge the realities of the postwar world."

Never Give Up

The U.S.-Soviet Malta Summit and the political changes in Eastern Europe suggest the postwar East-West political order decided at Yalta has collapsed. Nevertheless, the Soviet Union appears to have no intention of changing its position on the northern territories issue in the Far East, which was another product of Yalta.

It is now important for Japan and the Soviet Union to incorporate their bilateral relationship into the global trend toward peace. However, Japan should never withdraw or weaken its claim to the islands, which were unjustifiably occupied by the Soviet Union, to realize this.

Only the settlement of the territorial dispute can place Japan-Soviet relations on stable ground.

Any realistic approach to bilateral relations must address problems that exist between the two nations. Tenacious dialogue should and must continue.

Both governments are expected to exert positive efforts to resolve their differences to make Soviet President Mikhail Gorbachev's scheduled visit to Japan in 1991 a historic turning point for the improvement of bilateral relations.

Joint Space Experiment With USSR in January

OW2912094789 Tokyo NIHON KEIZAI SHIMBUN in Japanese 23 Dec 89 Morning Edition p 11—FOR OFFICIAL USE ONLY

[Text] The first joint Japan-Soviet space observation experiment is likely to start early January 1990. Utilizing two scientific research satellites launched respectively by Japan and the Soviet Union this year, the two countries will try to solve the mystery of aurorae polares, which appear in the skies over the polar regions. Heretofore, Japan-Soviet cooperation in the field of space science has been limited, and there has been no precedent for the two countries conducting joint observation programs. Since the Soviet Union is a superpower in space science, interested parties are looking forward to further progress in joint research programs with the upcoming experiment as the start.

Participating in the research program from the Japanese side is a group centering around Tohoku University and the Education Ministry's Institute of Space and Astronautical Science. The Soviet side will promote the project with the USSR Academy of Sciences Research Institute as its nucleus.

Japan launched the scientific research satellite "EXOS-D" last February, and the Soviet Union launched "Aktiv-2" this fall. Both satellites are now flying over the polar regions. In the regions, the satellites will observe aurorae at two separate points simultaneously and measure physical characteristics of particles composing the aurorae.

Since aurorae have never been observed at two different points at the same time, it has not been clear whether changes in measured values were caused by movements of aurorae or by some other reason. This has been a big obstacle in uncovering their mystery.

The upcoming joint experiment is part of the "International Solar Terrestrial Scientific Project (ISTP)," an international space research project carried out jointly by Japan, the United States, Europe, and the Soviet Union. Since the program was adopted in 1987, researchers of the two countries have been continuing adjustments.

Although when the experiment will start has not yet been firmly decided, it will probably start in early January, if final adjustments go smoothly.

A. Galeyev, director of the USSR Academy of Sciences Space Research Institute, the Soviet official in charge of the project, who recently visited Japan, predicted: "Cooperative relations between the Soviet Union and advanced Western countries in the space scientific area have deepened in recent years in accordance with improvements in political relations, and Japan-Soviet joint research projects like the latest one will increase in number in the days ahead."

Mitsui, Mitsubishi Join in Soviet Venture

OW2412121089 Tokyo ASAHI EVENING NEWS in English 23 Dec 89 p 5—FOR OFFICIAL USE ONLY

["Japan Tech" column by Roger Schreffler: 'Mitsubishi, Mitsui Join in Soviet Plastics Venture'"]

[Text] The surprising participation of Japan's two top trading houses in a $2 billion Soviet Plastics venture suggests lingering Japanese concerns about doing business in the currency-poor country.

Mitsubishi Corp. and Mitsui and Co., according to a joint venture agreement signed last month, will each invest close to $2 million as minor partners in the five-nation project which aims to establish a modern manufacturing complex in Siberia to produce polypropylene and thermoplastic elastomers for a wide range of industrial uses.

The principal participants in the project are Combustion Engineering Inc. of the United States and Neste Oy of Finland, each reportedly investing $800 million and having major responsibility for the venture. London-based Morgan Grenfell Bank will put up $32 million or 16 percent of the necessary capital, and Tobolsk Petrochemical Co., an agency of the Soviet Ministry of Chemical and Oil Refining Industries, represents the Soviet side.

For Mitsubishi and Mitsui, which last year reported combined sales in excess of $245 billon and individually rank as the world's biggest trading companies, it is the first time for them to work together on a project. According to company spokesmen, their main function is to provide know-how and assistance with respect to equipment procurement.

Robert Zielinski, a trading house analyst for Jardine Fleming Securities Ltd. in Tokyo, sees the project as a way of spreading the risk. "I surely don't think it signals an era of greater cooperation between these two historic rivals," he said.

Spreading the risk is especially important for Mitsui which 10 years ago lost in excess of $1 billion, along with other Mitsui Group companies, through its involvement in the now-defunct Iran petrochemical project.

Although details of the Siberian project are still being finalized, construction of a giant three-plant complex in Tobolsk is tentatively scheduled to get under way next year. When completed in 1993, it will have the capacity to produce 450,000 metric tons of polypropylene and 100,000 tons of styrene butadiene styrene thermoplastic elastomers a year.

The majority of this output will reportedly be for export for eventual sale to automotive, medical and general consumer goods manufacturers.

Industry analysts claim this sort of plant, being in the chemical field, is one of the few types that can help the Soviet Union generate hard currency immediately. And this, they note, is one of the chief reasons for interest by the two trading companies, both of which hope to participate in this new business.

For Mitsubishi, the project is its first in the Soviet Union. Mitsui, with a strong history in the chemical field, has participated in 32 ammonia and fertilizer plants.

Mitsui Wins Soviet Condom Factory Order

OW2412145189 Tokyo MAINICHI DAILY NEWS in English 23 Dec 89 p 7—FOR OFFICIAL USE ONLY

[Text] Mitsui and Co. has underbid British and Italian competitors to win a Soviet order for a 1.8 billion yen plant to make condoms to help solve the chronic shortage of condoms.

Company officials said the Soviet Ministry of the Oil Refining and Petrochemical Industry placed the order, the first of its kind, for building the facility with annual production capacity of 300 million condoms in Serpukhov, about 100 kilometers south of Moscow. Its operation is scheduled to start in late 1991.

They said the Soviet domestic supply capacity is only 260 million a year against a demand of 1 billion.

The deal was sealed after Oil Refining and Petrochemical Industry Minister Nikolay Lemayev visited Japan in early November to promote a petrochemical project in western Siberia.

The Soviet Union was scheduled to make an emergency import of 150 million condoms from India in November.

The officials said there is a big demand for condoms in the Soviet Union as the use of oral contraceptive is still banned. Fear of AIDS is another reason.

The Soviet Ministry of Health has been calling for increased production of condoms.

Company To Remodel Detergent Plants in USSR

OW2512045489 Tokyo YOMIURI SHIMBUN in Japanese 23 Dec 89 Morning Edition p 6—FOR OFFICIAL USE ONLY

[Text] The Kao Corporation on 22 December revealed that the USSR Technical Machinery Import Corporation [V/O Techmashimport] had requested that it remodel 13 deteriorated detergent plants. It said that it has already begun business feasibility studies with the Soviet side on four of the plants in suburban Moscow and other places. Kao Corporation received an order in 1978 for establishing a detergent plant with an annual production capacity of 200,000 tons in Novomoskovsk, south of Moscow. The plant is expected to be completed and turned over to the Soviet side on 27 December. It is believed that the Soviet side decided to award all reconstruction of the detergent plants to Kao on the basis of this performance record.

There are some 20 detergent plants with an annual production capacity of between 30,000 and 60,000 tons each in the Soviet Union. However, most of them have deteriorated as they were built 15 to 20 years ago, and their production capacities have decreased.

In addition, it is said that approximately 30 percent of their product is damaged and another 10 percent is lost in the distribution process, creating a serious detergent shortage problem. Concluding that, in order to solve the detergent shortage problem, production needs to be increased through remodeling deteriorated facilities, the Soviet corporation last autumn requested that Kao Corporation remodel 13 plants by way of plant exports. In compliance with the request, Kao reportedly surveyed the production scale and other data concerning the four plants and decided to undertake their designing.

Europe

Nakayama Says Japan To Help East Europe

OW3012063189 Tokyo THE JAPAN TIMES in English 29 Dec 89 pp 1, 12—FOR OFFICIAL USE ONLY

[Report on interview with Foreign Minister Taro Nakayama by staff writer Hisane Masaki on 28 December—place not given]

[Text] Japan will make due financial contributions to a proposed $11 billion multilateral fund to help facilitate economic reforms in Eastern Europe, Foreign Minister Taro Nakayama said Thursday.

"Japan needs to cooperate (with other nations) in resolving global issues from a global viewpoint rather than just from the standpoint of one nation in Asia," Nakayama said in an interview with THE JAPAN TIMES.

Representatives of 24 Western-bloc industrialized nations, including Japan, the United States, and the 12 members of the European Community, met in Brussels Dec. 13 to discuss ways to foster democratic and economic changes in Eastern Europe.

At the meeting, Nakayama expressed Japan's readiness to take part in the EC-proposed fund to help Eastern European nations rehabilitate their ailing economies.

The EC intends to offer half the $1 billion needed for the fund and wants Japan and the U.S. to provide 15 percent, a government source said.

Support for Romania

Nakayama said in the interview that Japan is ready to extend financial and other types of support to Romania on two conditions—that Bucharest is indeed moving toward greater democracy and a free-market economy and that it accepts economic restructuring programs worked out by the International Monetary Fund.

He said Japan needs to increase cooperation with Eastern European nations in cultural, medical, and technological matters as well as in economic concerns.

Nakayama noted that East-West relations turned from confrontation in the 1960s to dialogue in the 1970s and cooperation in the late 1980s.

The Malta summit meeting between U.S. President George Bush and Soviet leader Mikhail Gorbachev "rang a bell" in heralding the opening of a new era of East-West relations in the 1990s, Nakayama said.

He said the success of reforms in Eastern Europe, the transformation of the Warsaw Pact and NATO from military into political groupings and further arms reductions will help ease tensions throughout the world.

The foreign minister said he is not afraid that a stronger Europe may result from closer ties between nations there.

"A greater Europe will help strengthen tripartite relations among Japan, the U.S., and Europe," he said.

Public Opinion

Nakayama acknowledged that the Japanese public might be increasingly divided next year over how Japan should deal with such issues as relations with the Soviet Union and the security treaty with the U.S.

"The Government must ensure that its foreign policy decisions in 1990, the first year in the 10-year countdown to the 21st century, will be widely recognized as the right ones 50 or 100 years from now," he said.

To that end, it is necessary for the Government to step up public relations activities centered on foreign policy, he said.

Nakayama voiced a strong hope that ties between Japan and the Soviet Union will be improved through the

resolution of the dispute over Soviet-held islands off the northeastern tip of Hokkaido.

He gave no indication, however, that Japan might change its long-standing insistence that all the disputed islands be returned simultaneously before a Japanese-Soviet peace treaty can be concluded.

Ambassadors in East Europe Describe Situation

OW3112044689 Tokyo ASAHI SHIMBUN in Japanese 19 Dec 89 Morning Edition p 6—FOR OFFICIAL USE ONLY

[Roundtable talk on the East European situation, participated in by the following Japanese ambassadors: to the Soviet Union, Toshiaki Muto; to Hungary, Eiji Seki; to Czechoslovakia, Chisachi Kato; to East Germany, Hirokazu Arai; and to Romania, Katsuhiro Ichioka; at a hotel in Vienna on 15 December; moderated by Seiichi Kubota, chief of the ASAHI SHIMBUN European General Bureau]

[Text] The year 1989 has been a year of turbulence. The prodemocracy and freedom movement begun in Hungary and Poland triggered a chain reaction. The movement is spreading to various places in East Europe; the political map of Europe is about to undergo a drastic change. With holes opened in the Berlin Wall, even the prospect of reunification of East and West Germany is looming, sending waves of perplexity to countries in West Europe. Japan is compelled to review its diplomacy on East Europe since Prime Minister Kaifu's scheduled visit to Europe is close at hand. This newspaper on 15 December invited to Vienna the Japanese ambassadors assigned to the Soviet Union and East European nations—the epicenter of the "worldwide earthquake"—and solicited their views on the background of and the outlook for the ongoing changes, and on how Japan's diplomacy should be now when a new era is ushered in.

[Kubota] Speaking about the drastic changes that have taken place in East Europe, are these something you foresaw, for instance, 9 months ago or 3 months ago?

Muto: I did not expect even only 3 months ago that things would change to this extent.

Arai: In case of East Germany, the fall of Honecker—general secretary of the Socialist Unity Party and chairman of the Council of State, who resigned in mid-October—had been anticipated. He was ill too. It had also been foreseen that his downfall would mean the beginning of uneasiness, but the developments leading to the "Berlin Wall" situation were, I believe, something that nobody even imagined possible. It was actually the West German permanent representative office (the embassy in East Berlin) which was most surprised by the "Wall" situation.

Kato: Regarding the events happening in Czechoslovakia, there can be two explanations. First, while the "Prague Spring" was a reform movement led by the Communist Party or from above, this time the rising demands for human dignity and freedom came from the people or from below.

The other is that the reform of 1968, although well on its way toward success, bogged down before being successful (since it was met with the armed intervention by the Soviet and other forces). Having learned a lesson from this experience, the people pushing the movement were thinking in unison that they must get everything done quickly—before the party recovers its power. The events progressed very quickly as a result, while, caught in the past way of thinking, we were not able to grasp the situation.

[Kubota] So many things are happening in East Europe simultaenously. Will Romania remain an exception to the end?

Ichioka: I do not think it will remain an exception. Probably we should not think it will remain an exception. For any government, what is happening in neighboring countries is a thing of most concern. Radio waves come in freely, so the people know what is happening. It is just that they do not show it on their faces. News spread among them very quickly. Because of this, the government's wariness and distrust of the people are extraordinary. On the surface they appear to be going along the same line, but there are abnormal tensions beneath the surface.

In a dictatorial country, changes can come almost instantaneously once things start to roll. Everybody knows this.

In the case of Czechoslovakia, within the antiestablishment group there were people who studied what actions would lead to what changes. There are no such people in Romania. Hence, once things start in the direction they will run and in the energy they will run with, it will be something nobody has anticipated.

[Kubota] What is the view on the Hungarian situation, which led the way to the reforms?

Ichioka: I think even the Hungarian Government did not anticipate that the changes would occur at such a fast tempo. At the end of August when an exodus of East German refugees went through Hungary, the Hungarian Government was said to have been very much annoyed. If it went to talk to East Germany and Czechoslovakia, it was told to "put an end to the problem," and if it went to West Germany, it was told: "You are a sovereign nation. Don't you think this is something you have to decide on your own?" The country was in a state of having the whole world against it.

Around that time I anticipated that Hungary would come to let the East German refugees go to the West because I thought it would be impossible for Hungary, which had decided to grant freedom of travel to its own people, to do differently with people from East Germany and Czechoslovakia. It turned out that way eventually, but I think the then Foreign Minister Horn and the

people around him had a really tough time. But their decision became a motive for the changes in East Germany and Czechoslovakia. It turned out to be a happy miscalculation for Hungary.

I think that regarding the changes occurring in neighboring countries, Hungary is now happy, believing that its course of action came to be better understood by them and that international circumstances have improved as a result of it.

[Kubota] What would you say was the role played by Soviet General Secretary Gorbachev?

Muto: After all, everything may be said to have happened because of Soviet perestroyka. It can be said that basically the will, reason, and humanism of the people of those nations won victory, but what made that possible was Soviet perestroyka or the fact that the Soviet Union no longer is stopping the East European nations from walking their own ways. In that respect, General Secretary Gorbachev can be said to have played an important role.

Arai: He is a very good manipulator of mass media. His speech on the 40th anniversary of the founding of the German Democratic Republic had content that pleased both Mr Honecker and West German Premier Kohl. I do not agree with the views that General Secretary Gorbachev ordered East Germany to do this or that. When he came to East Germany, the mass media of the West made a big play of it, saying: "Gorbachev came to offer advice." The reports bounced back to East Germany plunging its citizens into a "Gorby" fever. In other words, General Secretary Gorbachev can accomplish his purpose without saying a word. To be cynical, the Western media is helping him.

[Kubota] The possible fall of General Secretary Gorbachev is being talked about in allusion to the precedent involving First Secretary Khrushchev.

Muto: There are elements that make a simple comparison to Khrushchev impossible—for instance, the inauguration of the Congress of the People's Deputies, authority of which stands over that of the party. General Secretary Gorbachev is also chairman of the Supreme Soviet Presidium. Suppose there were a power struggle within the Communist Party. It would be possible that Mr Gorbachev is pulled down from the position of the party general secretary, but it will not be possible to pull him down from the post of Supreme Soviet chairman. Having two posts concurrently solidified his base.

Besides, it is no longer an age when power struggles take place and are concluded behind the curtains keeping the outside in the dark. Visibility is becoming a major element.

Seki: In relation to the visibility, to take Hungary, the country is now expressing its views to Moscow fairly openly and frankly. Formerly, it is said that people were called to Moscow and told to do this and that. To see these changes, I feel that human beings are forced to make progress.

[Kubota] What are your views of the Gorbachev government's stability?

Muto: The latest counteroffensive of the conservatives against the leadership is riding on discontent of the people over poor results from economic reforms. Their attack against Gorbachev, I feel, is not for policy reasons, but has been touched off by their apprehensions that events happening in East Europe might lead to an endangering of their positions. In other words, I feel that their motive rests not in the Soviet people's problematic standard of living.

Arai: In case we argue that General Secretary Gorbachev's fall from power is possible, there can be three fatal conceivable elements. The first is the economy, but it did not suddenly deteriorate. The 1,000-year history of Russia shows that it is a very persevering and durable society. I do not think that a bad economy is necessarily a decisive factor.

The second is the ethnic problem, which is also serious. In the final analysis, however, I think that Russian nationalism props them up. The third, I think, is the German question. This is indeed a question upon which Soviet security is hinged. I am afraid that there will be a great possibility of Gorbachev being tripped up if and when he errs in addressing the German question.

[Kubota] How is Hungary perceiving the German question?

Seki: Hungary has deep ties with Germany, both historically and economically. They are cautious about the Germans, but also feel friendly toward them. In that, I think they are a little different from Poland.

[Kubota] What about Czechoslovakia?

Kato: The division of Germany is an outcome of the split of Europe and I think that they are asking why only Germany should be kept split in this age when the East and West try to get along, instead of keeping Europe split. In Czechoslovkia's case, as reform makes progress, there is a change in the nuance of showing an understanding of German reunification.

[Kubota] How is it in Romania?

Ichioka: Even before arguing about the German question, I think that they do not even want to dream about it (reunification). Their official position is that they hope East Germany will succeed strictly as a socialist country. I think that to argue about the two Germanys is in itself revisionist or opportunist and out of the question for them.

Probably they feel isolated. President Ceausescu calls for a meeting of socialist countries now and I think this is because he wants to find companions.

[Kubota] Diplomatically how is Japan going to deal with these developments taking place in Eastern Europe? The government seems to be half-hearted, even about aid.

Arai: Heretofore Eastern Europe has been a far distant being to Japan, both officially and privately. The amount of trade with the six East European countries is less than that with Austria alone. However, association at ordinary times is important in foreign relations and you cannot have your voice heard unless you have accomplishments or distinguished services to your credit. I think that we must build more deep-rooted relations with Eastern Europe. It will be no good if you make much ado about East Europe now but once enthusiasm is lost, you say that it is all over. It is now time for Japan to break from its conventional way of thinking.

Seki: Forty years after the war, Japan's national strength grew so strong that it is able to deal with Eastern Europe from an independent position. Cooperation with the United States and Western Europe is of course important, but I think that the Japanese need to appeal to East Europeans about their beliefs from their own viewpoint and philosophy.

It is only natural to help the boat people and just as it is to help people who are trying to flee from a political system they do not like. It is now an important time for Japan.

Kato: Giving money may be one way of associating with the East Europeans, but I think it is more important to build the foundation of bilateral relations and make it substantial. A rich man gets his child reference books and finds a tutor for him and he thinks he has done everything for the child. But this is not the way. He must think of what will be of benefit to the child himself.

In the wake of liberation from Soviet oppression, nationalism has been on the rise and the appearance of national flags and anthems have been widespread in Czechoslovakia. Should Japan offer aid at this juncture and assume an air of importance, it would only incur a backlash. It is important that we be humble in offering support to the self-help effort of the Czechoslovaks, instead of assuming the attitude: We will send you money if you hold free elections. It is important that we prevent them from feeling, after the Soviet Union became silent, that the West is giving them directions.

Seki: I said that Japan should have its own philosophy. I meant to say that Japan should make its position coherent after holding thorough consultations with the United States, the Soviet Union, and Western Europe. The Hungarians are a proud people and they say that they will pay back all the money they borrow. I have not heard them say anything that could be taken as a demand.

Ichioka: Prime Minister Kaifu's tour of Europe scheduled for January next year is of great significance. Whether it likes it or not, Japan is taking part in the steering of the world. Therefore, Japan finds it imperative to make its position clear. The European issue is of greater significance than those of other regions. Great hopes are pinned on the Japanese prime minister, who will be visiting Europe at this juncture.

Seki: Being stationed in Eastern Europe, I keenly realize how important Japan's Asian diplomacy is. If Japan has a shaky foothold, it will be difficult to play a global role even if it wants to.

Arai: With regard to the prodemocracy movement in Eastern Europe, although we tend to get the impression that things will proceed straight ahead, the situations are never that simple. History teaches that there will be ups and downs. We must keep this in mind.

KYODO President Tours East Europe, USSR

OW2912021289 Tokyo TOKYO SHIMBUN in Japanese 20 Dec 89 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Story as told by KYODO News Service President Shinji Sakai: "After Touring the Soviet Union and Three East European Countries"]

[Text] KYODO News Service President Shinji Sakai recently visited the violently shaking Soviet Union and three East European countries—East Germany, Poland, and Hungary—and met energetically with high-ranking government officials and news media leaders. He said that, unlike in the era when they were firmly under Communist Party rule, people in the East European countries had spoken freely and frankly, and he gained the impression that the (Supreme Soviet Chairman and CPSU General Secretary) Gorbachev regime will not collapse, even though it may be troubled by an economic crisis. The following is his fresh impression of his Soviet and East European tour:

Violent Changes

Among the three East European countries, reform was most advanced in Poland, where a noncommunist government, led by Mazowiecki, was born. The news agency executives and Janos, chief editor of the English newspaper VOICE OF WARSAW, whom I met in Warsaw, told me: "Had they been under the Communist Party rule as they have, the people would not put up with an economic crisis. But, under the present Government, they will endure." That was very impressive.

Despite the fact that its economy is at its lowest ebb, Poland is ablaze with efforts to build a new nation and its Government is doing its level best to lay the groundwork for receiving loans from the International Monetary Fund (IMF).

Compared with Poland, Hungary seems to have some elbow room. The streets were hung with Christmas decorations and bustling with shoppers buying presents.

East Germany was full of tension, reflecting its present political situation. Just before I met with Premier Modrow, the dismissal of Krenz from the post of State Council chairman was announced and I also heard the news that citizens had raided military facilities in local areas. I could feel a vacuum of political power and Poetschke, director general of the state-run news agency ADN, with his eyes reddened and swollen, told me, "I cannot sleep well at night."

Soviet Situation

Regarding the stability of the Gorbachev regime, Vlasov, director general of the state-run news agency TASS, said: "There is only one crisis facing the chairman: an economic crisis. The question is how long the people will endure, while there is no prospect in sight of the situation taking a favorable turn. But it is also true that there is no suitable person in the present leadership to replace Chairman Gorbachev."

There is no absoluteness about Soviet leaders any more, like there once was. The question is whether this should be taken as a sign of progress or a danger, but I want to regard it as a wholesome sign.

Radical reformists in the Soviet Union call for liberalizing the introduction of a market economy, while conservatives stress the need to restore central control, as in the past. Explaining the difficult situation for the Soviet economy, Vlasov told me: "Restoring controls can be a temporizing measure, but it cannot be a basic solution. But then, if the economy is liberalized, we will have to worry about inflation."

Inflation following liberalization is severe: In Poland, it is said to be at 400 percent officially and 700 percent in real terms. In Yugoslavia, it is said to be at a whopping 1,000 percent.

In Moscow, I heard that there had been cases of systematic hoarding of scarce items in massive quantities. How should they activate the economy unaccompanied by steep inflation in the midst of serious commodity shortages? I think the next couple of years will be crucial for Chairman Gorbachev.

News Media

There have been reports that Chairman Gorbachev recently made a very tough speech before a gathering of influential mass media officials. I asked TASS Director-General Vlasov about it. He refuted negative views on the speech, saying: "He asked for constructive and forward-looking reporting, and the speech had nothing to do with a retrogression of glasnost (openness of information)." Even a law governing mass media is being readied, and it will be set out expressly in the law that "the mass media are free and will not be subject to inspections," he added. Glasnost is about to be legally insured, according to him.

In East Germany, where violent political changes are taking place, a deputy director general of the state-run ADN News Agency was dismissed from his post 3 days before I arrived there. General Director Poetscke being personally close to Premier Modolow, however, it is probable that the news agency will be positively supportive of the reform line.

In case of Hungary's state-run MAGYAR News Agency [MTI], it has been decided that it should transform itself into a corporation. When I visited its office, it was clear that the agency was putting emphasis on increasing its income to be self-sufficient when it starts to operate under new, privatized management. It was so serious that it brought out to me the subject of revising its service charges with KYODO.

After Reforms

How far the reforms can go will vary from nation to nation. A researcher of the Economics of the World Socialist System Institute in the Soviet Union whom I met made the following analysis: "Poland passed and went beyond the framework of perestroyka (restructuring) or even of socialism. Czechoslovakia could have been made to remain within the framework of socialism if a measure had been taken a little earlier. But it is too late now. Hungary and East Germany will remain within the framework of socialism."

There is no question that the future of reforms and changes in the Soviet Union and East Europe depends on Chairman Gorbachev. Should Chairman Gorbachev fall, the situation would change its course 180 degrees. If the countries succeed in overcoming the present crisis, they can proceed to an adoption of a plural party system, abolition of their centralized-power system, and adoption of the free market economy, making it possible for the Communist Party ruling system to undergo major changes in 4 to 5 years.

Another point of focus in the East Europe situation may be the German question. At present, both East and West Germany are saying: "We are not thinking of becoming one Germany." East Germany is talking about the possibility of forming "a community under a treaty," while West Germany is thinking about forming "a union of states."

From the viewpoint of national feelings of both Germanys, however, it is inevitable that they will head for reunification, even though it is difficult to predict when, or in what form, this will happen.

Bankers Fear Debt Crisis in Eastern Europe

OW2912114989 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 pp 36, 29—FOR OFFICIAL USE ONLY

[By Fumio Okamoto, JAPAN ECONOMIC JOURNAL staff writer]

[Text] The Iron Curtain may be ripping apart, but Japanese banks, already major creditors to Eastern European nations, are not quite ready to step through the shreds and set up shop.

Japanese bankers have doubts as to whether the recent series of moves toward democracy in the region will result in an expansion of their business there, including new loans.

While the Japanese government has already pledged to financially support economic reforms in Poland and Hungary, many bankers claim it is too early for commercial banks to write a blueprint for the region, now in the midst of political upheaval.

They added they still question whether the rapid chain of events—from the installation of a non-Communist government in Poland to the opening of the Berlin Wall—could transform into real economic prosperity and, in turn, attract new Japanese investment and money.

Since the early 1980s, Japanese banks have been offering a relatively large amount of money to the region, although they will not release exact figures. In the cast of Hungary, Japanese banks account for around a third of the nation's $16 billion debt with Western commercial banks, according to financial sources.

Many Japanese bankers say that the ongoing economic reforms could make it hard for these nations to repay loans smoothly for a while because of increasing inflationary pressure at home. In Poland, for example, the inflation rate soared to 200 percent this past summer when the government permitted wages to increase in proportion to prices.

Azusa Oshima, Bank of Tokyo's general manager overseeing European operations, says if their economic reforms fail, chances are these nations will face debt crises on a par with those of Latin American nations. "The ongoing economic reforms are unlikely to increase competitiveness or stop the ballooning debts," he predicts.

Under the circumstances, many bankers say they will keep a close watch on the developments to see if the economic reforms promise to result in economic stability.

Oshima said that Japanese commercial banks will not offer substantial loans to Eastern bloc nations until public financial institutions show a willingness to extend more loans to such countries.

Consider Poland, for example. The country is now actively seeking the establishment of joint ventures backed by Western capital. Indeed, Daihatsu Motor Co. and Asahi Glass Co. are reportedly ready and waiting to set up joint ventures in the nation.

But because Poland has for the past few years rescheduled its existing debt repayment, both the Japanese government and private banks have suspended new loans. The government is also refusing to provide insurance protection on new trade and investment there.

Recently, the Japanese government decided to offer a package of measures to support economic reforms in the country, including stabilization of the zloty, Poland's currency.

Hiroshi Kawasaki, executive director of the government's Export-Import Bank of Japan, said the bank will resume new loans after Poland and the International Monetary Fund reach an economic restructuring agreement and the Paris Club agrees on details of the new repayment schedule.

Kawasaki said the bank will offer a wider range of financial services to Eastern bloc nations, from export credits to untied credits. Commercial banks would then follow this lead, resulting in a greater flow of Japanese cash into these countries, as well as Japanese companies operating there, he added.

Many Japanese bankers say they are reluctant to jump headfirst into Eastern Europe until they can be sure democratization soaks in and shows signs of permanence. They claim things are too uncertain at the moment.

Behind the scenes, however, some Japanese banks are getting ready to conduct full-scale research on the current situation in the region, as well as devising future projections, in hopes of quickly establishing a bridgehead when the time is deemed right.

At least two city banks, Mitsubishi Bank and Tokai Bank, are shortly expected to formally ask the Japanese Finance Ministry for permission to open representative offices in Vienna, according to Japanese banking sources.

At present, Sumitomo Bank and Bank of Tokyo have one or two representatives stationed in the Austrian city, considered the gateway to Eastern Europe, and have done so since the early 1970s. There are no Japanese bank offices or branches in Communist Eastern Europe, including the Soviet Union.

Oshima said some other Japanese banks are likely to move into Vienna next year, "lest they should miss the bus."

Some Japanese bankers, though they admit that they do not have any immediate plans to do so, acknowledge the need to boost research functions by increasing their presence in London or West Germany.

Given the fact that Japanese trading houses are recognizing the possible need to eventually shift their operations from such West German cities as Frankfurt or Hamburg to East Berlin, there could be a move by Japanese banks to open representative offices in West Berlin to support them, according to analysts.

Foreign Ministry on Fall of Ceausescu Regime

OW2512100989 Tokyo YOMIURI SHIMBUN in Japanese 24 Dec 89 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Text] The Foreign Ministry issued a statement on 23 December commenting on the old East European system's total collapse that came with the fall of the Ceausescu regime. Ministry spokesman Taizo Watanabe made the announcement on the fall of the Ceausescu government and expressed strong expectations from the newborn Romania, saying: "We express our respect to the courage of the Romanian people who have toppled the despotic government." The ministry gave a high appraisal of the reform currents that are sweeping over the whole area of East Europe, calling them "historical events having great impact on the basic structure of East-West confrontation which has characterized the postwar international order."

On the fact that the democracy move begun in Poland and Hungary has spread to the whole of East Europe in such a short timespan, the ministry's analysis is that a "domino phenomenon" of limited type happened, helped by mass media reports. The ministry said: "Even in Romania, which was the last country to be affected, people could hear BBC (British Broadcasting Corporation) programs and knew well about what was happening in other East European nations."

The ministry as background for developments in East European nations cited the countries' sluggish domestic economy, saying, "Life of poverty became the seed for the discontent of the people, and the discontent exploded." Consequently, tasks facing these nations in the future will be full-scale economic reform and liberalization, but (a Foreign Ministry source predicted) it will most likely take some time for the situation to normalize as there is "the possibility of inflation being further accelerated if restraints on prices are removed." The ministry is now watching how these developments will affect such Asian nations as the DPRK (North Korea) and China, which has intensified its control on people following the Tiananmen Square incident.

Government Studying Plans for Aid to Romania

OW2412135289 Tokyo NIHON KEIZAI SHIMBUN in Japanese 24 Dec 89 Morning Edition p 1—FOR OFFICIAL USE ONLY

[Text] On 23 December, the government started studying concrete plans for providing economic aid to Romania in support of its move toward democratization. The Foreign and Finance Ministries have started consultations on plans to provide food aid and also yen-based loans. Meanwhile, the EC Committee decided on 22 December on its first economic support to Romania by providing materials, including mainly medical supplies. The United States has expressed "its readiness to provide strong support and aid." Thus, Japan, the United States, and European nations will set forth in cooperation to support Romania.

Following the downfall of the Ceausescu regime in Romania, the government decided on 23 December to start a plan for supporting newborn Romania economically. In concrete terms, the government is studying plans for providing: 1) food aid to deal with the current food shortage problem, and 2) yen-based loans to promote economic reforms. Consultations will be held as soon as the new administration has consolidated its structure. Despite the fact that the situation is still fluid in Romania, there will be no changes in the orientation of democratization. Based on this judgment, the government has decided to cooperate with Romania in promoting its economic reconstruction, while acting in concert with other Western nations.

In consideration of the rapid changes in the Romanian situation, Foreign Minister Nakayama held talks with Finance Minister Hashimoto on the afternoon of 23 December, and they exchanged views on concrete plans to support the East European nations, including Romania. With the downfall of the Ceausescu regime in Romania, democratization has been achieved in all the six East European nations that participate in the Warsaw Treaty Organization. In this connection, the government welcomes this fact because it will have a favorable influence on the future development of East-West relations.

When Prime Minister Kaifu visits Europe in January, the issue of our aid to Romania will certainly be brought up as one of the major topics. Therefore, the government has particularly sped up the study of concrete measures in this regard.

The former Ceausescu regime adopted an economic policy of giving top priority to the repayment of foreign debts, and as a result of exporting even the food that was needed for the people's livelihood, Romania suffered serious food shortages at home. Therefore, the government is studying a plan to provide food aid. Moreover, if the market-oriented principle of economy is introduced, there might be serious inflation as in Poland and it would become difficult for the people to buy foodstuffs. The government has already disclosed its plan to provide Poland with food aid amounting to $25 million. However, due to budgetary limits, food aid to Romania is expected to fall below this figure.

Editorial Views Execution of Romanian President

OW3012111289 Tokyo THE DAILY YOMIURI in English 28 Dec 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 27 December editorial: "Death of Ceausescu"]

[Text] It is regrettable that Romanian dictator Nicolae Ceausescu and his wife Elena were executed hastily after a secret trial by the new government dedicated to creating democracy.

It has been rare for a state leader to suffer such a fate in recent years. The killing of the Ceausescus recalls the death of Italian fascist dictator Benito Mussolini toward the end of the war in Europe.

The new government did not disclose the whereabouts of the Ceausescus after their arrest, apparently to prevent an attempt by security forces to rescue them. Also, there may have been concern that a segment of the national army might try to kill them to end the fighting.

We may speculate that the new government eventually bowed to pressure from the army and turned the Ceausescus over to a military tribunal. However, we believe it is important to try those responsible for crimes of a fallen regime in an ordinary court. If the military is allowed to decide on justice, then there is a danger of a new dictatorship.

Ceausescu's Victims

Democratic reforms are being carried out in a peaceful manner in Eastern Europe with the exception of Romania. The bloody upheaval in Romania was due primarily to the blood-thirsty nature of the ousted Ceausescu regime.

According to the new government in Bucharest, as many as 60,000 people were killed in the revolution. Many of these were killed in cities outside of the capital.

The military crackdown on peaceful demonstrators was primarily responsible for the bloodbath in which there were indiscriminate killings. However, the security forces committed brutal acts against Hungarians, a minority living in northern Romania, and other minority people.

Ceausescu manipulated the hostilities of Romanians, who are of Latin descent in generally Slavic Eastern Europe, toward minorities to strengthen his dictatorial power. He practiced the politics of divide and rule by stirring up antagonism between Romanians and minorities.

Need For Tolerance

This set the stage for the attacks on minorities by both the security forces and the militia.

Ceausescu trained secret police and other security forces to stamp out any resistance to his regime. Even after his downfall, the security forces refused to surrender for fear of revenge by the people or prosecution by the new government and continued their desperate resistance.

It is our hope that the new Romanian government will completely abandon its blood-soaked past and pursue the goal of establishing a nonviolent democracy.

Ethnic minorities in Romania, who have experienced prejudice and hardships, should also put aside their biases toward each other and place their trust in the new democratic government.

The pro-democracy tidal waves crashing across the Soviet Union and Eastern Europe have set off serious conflicts in a number of areas. These need solution. But it is particularly important for Romania to end ethnic friction at this time in its history.

Kaifu To Present New Diplomatic Guidelines

OW2612034389 Tokyo NIHON KEIZAI SHIMBUN in Japanese 24 Dec 89 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Text] Prime Minister Kaifu has decided to disclose Japan's new diplomatic policy guidelines based on the rapidly changing situation in Eastern Europe during his scheduled European tour in January. He has formed a basic understanding that "democratization in Eastern Europe will lead not only to stability in Europe but also to stability in global East-West relations." From this viewpoint, he will state strong expectations for the "advent of a new age in the Asia-Pacific region." He will also stress the need to strengthen Japanese-European relations in the "new age that transcends the concept of the cold war." At the same time, he will emphasize such concepts as 1) further promoting political dialogue with Western Europe, 2) promoting cultural exchanges with various nations, including Eastern Europe, and 3) maintaining the system of free trade.

In particular, the prime minister will stress that Japan's support for Eastern Europe will lead to stability in East-West relations and will contribute to world peace. He will also explicitly explain his ideas on providing positive aid to Eastern Europe, an area which has so far been unfamiliar to Japan. He will explain that the total amount of aid to Poland and Hungary will reach over $200 million, including a $150 million fund to help stabilize the currency in Poland, emergency food aid to Poland, and technological and other aid to the two nations. Prime Minister Kaifu is also expected to disclose Japan's readiness to support Romania, where the Ceausescu regime has been overthrown.

Furthermore, he will state his understanding that the "demand for liberty and democracy enjoyed in the West, including Japan, and cherished by the people of Eastern Europe" has been the major driving force for the changes

in Eastern Europe and that the move toward liberalization as represented by the collapse of the Berlin Wall—symbol of East-West confrontation—"will never regress."

Meanwhile, in view of the new age, he will appeal for "strengthening the system of cooperation among Japan, the United States, and Europe." He will point out that in addition to further promoting cultural exchanges between Japan and Europe, there is a need to promote closer dialogue at the summit level, not only in the economic field but also in the political field, because such relations between Japan and Europe have been weaker than those between Japan and the United States or between the United States and Europe. While appraising the European Community's (EC) market integration in 1992, he will touch on the importance of an open economy, indicate his hopes for a "Europe that is open to the world," and state Japan's intention to positively participate in the European Development Bank, a plan sponsored by France, as a representative of the Asia-Pacific region.

He will also touch on the Soviet "new thinking in diplomacy." While acknowledging that the changes in Eastern Europe "have been achieved under the Soviet policy of perestroyka (restructuring)," he will also stress that the new thinking in diplomacy "has not been developed in the Asia-Pacific region in a way favorable to Japan." Thus, he will call on the Soviet Union to take new measures in the Asia-Pacific region.

Prime Minister Kaifu is scheduled to visit eight countries, Great Britain, France, the FRG, Italy, Belgium, Poland, Hungary, and the Vatican, from 8 to 18 January. He will arrive in West Berlin on 19 January and state his views at the Japan-Germany Center in Berlin.

Government Urged To Help European Economies

OW3012115089 Tokyo ASAHI EVENING NEWS in English 28 Dec 89 p 3—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 28 December editorial: "Aid for EC Economies"]

[Text] In terms of population and economics, European countries might perhaps be described as smaller than the United States and Japan. The European economies have fallen behind those of the United States and Japan because, in a nutshell, they are a group of "smaller" countries whose markets have been disrupted by national borders.

While in this state, Europe is to integrate itself. Agreement has been reached on the formation of a European Economic Sphere (EES) with the amalgamation of the European Community (EC) and the European Free Trade Association (EFTA). Stepping up liberalization efforts, East European nations are moving in close to the West at an increasingly quick pace.

With the Cold War now a bygone era, there are growing moves for a "single Europe" in the economic sector, too. There could no longer be a possible reversal of the trends of the times.

We must skillfully cope with this epochal change taking place in one of the three poles of Japan, the United States and Europe, which sustain the Western economies. The first step will be of help in the economic vitalization of a "single Europe."

The EFTA's dimensions are not so prodigious in that it represents only one-10th of the EC in population and one-seventh of the gross domestic product (GDP). But more significant, the EFTA, organized by Sweden, Switzerland, Austria and three other nations, which rather look more like neutral countries, will link itself with the EC which belongs to the Western alliance.

The EES, which is to be formed by 1993, will come under the application of the common policy measures of the EC, which is working hard for market integration. Given this picture, the formation of the EES will signify the 12-nation EC encompassing 18 nations that cover virtually the whole of Western Europe.

Of much more significance is the likelihood that the neutral EFTA might serve as a sort of adhesive for the East and West European economic spheres. In this context, it is symbolic that Hungary, which hopes to join the EC, has expressed its intention of concluding an agreement of cooperation with the EFTA as a transitory measure.

Discernible from all those developments is a posture of trying to quicken the pace of an economic integration while getting around any political friction between East and West.

We hope in all earnest that an integration of European economies makes progress and, by ensuring economy of scale, serves to vitalize them.

The path ahead is thorny, and the hardest nut to crack is how to integrate the East's command economies with the West's market-oriented economies.

East European countries are striving to equip themselves with market mechanisms, but they simply do not have quick remedies for their underlying economic structures, in which too much priority has been given to heavy industry and the living standards remain low.

Should attempts be suddenly made to begin free market dealings with Western countries, there is a danger that the East European economies might be thrown into confusion due to massive outflows of manpower and hyperinflation.

Nonetheless, it is up to the East European countries to rectify their economic structure and grow competitive enough to commit themselves in international economic

institutions, such as the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF).

Here lies a sector in which we Japanese could play a significant role. One strength of the Japanese economy lies in the fact that scientific and managerial technology is so sophisticated in almost every industrial sector. That means that we are equipped with resources of the sort needed for reforms of Eastern European economies which have remained sclerotic under central planning.

For the time being, Western countries might have to render financial assistance to Eastern Europe. The heads of the EC nations at their latest meeting agreed to establish a European Development Bank. In line with this accord Japan and 23 other nations later declared at a ministerial meeting to give support to East European nations.

Increasingly criticized by other countries as not making due contributions as a major economic power, Japan ought to do everything in its power for a vitalization of the expanding European economies, and this endeavor is accordant to its national interest.

Companies See Difficulties With EC Integration

OW2212142789 Tokyo NIHON KEIZAI SHIMBUN in Japanese 17 Dec 89 Morning Edition p 1—FOR OFFICIAL USE ONLY

[By reporter Takahashi]

[Text] London, 16 Dec—Nearly 70 percent of major Japanese companies are concerned that the EC integration in 1992 will impose difficult demands on Japan. However, because of the growing possibility of the emergence of a "greater Europe" embodying the USSR and Eastern Europe, they are rapidly increasing investments in Europe. This was the conclusion reached from a "Questionaire on Japanese Corporate Strategy on EC Integration" submitted by NIHON KEIZAI SHIMBUN to the top 300 export companies. (There were 131 valid responses.) These companies consider Europe an important base for the international division of labor and are pushing efforts to start full-fledged local production or to set up headquarters in Europe.

Of the companies responding to the poll, 66.1 percent expressed their concern that "on the whole, EC integration will create difficulties for Japan." This is because there is a strong possibility the restrictions on Japanese car imports will be maintained and the idea of reciprocity, which would not allow new investments by countries that are not open to foreign investments, is on the rise. However, to the question "will Europe revitalize," 37.9 percent answered that "a strong Europe will come into being and compete with Japan and the United States." They have in mind EC's strengthening relations with the European Free Trade Association (EFTA) centered on Northern Europe and with Eastern Europe where reforms are underway. On the corporate environment after integration, many companies see an increase in mergers and acquisitions and intensified monopolization of industries with competition stiffening among companies and among nations.

For the above reasons, moves by these companies to enter Europe and to gain a foothold there now, before EC integration materializes, have suddenly become active. Of these companies, 41.7 percent already have local production subsidiaries in Europe, while another 9.6 percent are "now planning to set up such units." This indicates that more than 50 percent will be engaged in local production. Among the companies not planning European investments, 23.5 percent want to "draw up plans at an early period."

Among the companies polled, 24.3 percent are taking moves or are planning to set up "European headquarters" that will deal with Europe as a whole and not on a country-to-country basis. Among those companies not having European headquarters, 29.6 percent said that "although nothing is definite yet, we will draw up plans as soon as possible." This shows that they feel substantial powers should be delegated to the European headquarters.

Based on the results of the poll, the number of employees working for European subsidiaries of Japanese companies is estimated at 40,000 to 50,000 (of which over 70 percent are local people). Many believe that this number will increase rapidly in the next 3 years, exceeding 200,000 by 1992.

Government Extends Y35.2 Billion Loan to Turkey

OW2112154089 Tokyo JIJI in English 1329 GMT 21 Dec 89—FOR OFFICIAL USE ONLY

[Text] Tokyo, Dec.21 (JIJI PRESS)—The government will supply a total of 35.2 billion yen in loan to Turkey to help finance its credit facility for farmers, government officials said Thursday. Notes to this effect were exchanged between the two countries in Ankara the same day, they said.

The yen loan will be used as part of funds for implementing the third agricultural credit program. It carries an interest rate of 2.9 percent per annum with repayment to be spread over 25 years, including a 7-year grace period, they said.

China

Government Faces Tough Question on PRC Ties

OW2712133989 Tokyo ASAHI EVENING NEWS in English 26 Dec 89 p 7—FOR OFFICIAL USE ONLY

["Point of View" column; article by Itsuo Kadogaki, ASAHI SHIMBUN associate political editor: "Images and Realities—Seeking Better Relations With China"]

[Text] The government will send to China a fact-finding mission early in January for the resumption of the third yen-denominated loan to the country, but it has yet to determine when and how it should take full-scale steps to mend Japanese-Chinese relations which got out of tune after the Tiananmen Square incident in June. Both have been paving the way over the past several months for normalizing Sino-Japanese ties in various ways. Former Foreign Ministers Masayoshi Ito and Yoshio Sakurauchi visited Beijing on separate occasions to probe measures for bettering ties with China; Japan's economic aid for existing projects in China were resumed; and governmental talks at high official levels on cultural exchanges were also re-opened in Beijing. Meanwhile, Japanese economic circles called on the Japanese government to lift economic sanctions. A mission led by business tycoons Ryoichi Kawai and Eishiro Saito was dispatched to China.

Both the administration and the ruling party believe that stabilized Sino-Japanese relations and their maintenance are important not only to Japan but also for the peace and stability of Asia and even the world at large. In the face of Soviet efforts to promote perestroyka and in the wake of relaxed East-West relations reflecting rapid changes in Eastern Europe to facilitate democratization and liberalization, it is undesirable to leave China internationally isolated for too long.

Furthermore, Japan's economy began showing signs of repercussions from the Chinese import curb on Japanese goods since last year, in a way that increased Japan's trade deficits with China. The economy was also hurt by decisions of Japanese private corporations to suspend or cancel extension of new loans and investment projects.

Internationally, the Western bloc nations appear to be united against China with concerted sanctions, such as the banning of high-level contacts and freezing economic support to China.

Despite uniform condemnations, however, the eagerness of Western nations to return to China is revealing. For example, it is a well-known story among observers in China that it was the British, not Japanese businessmen as has been reported, who first returned to China after withdrawal from local offices at the time of the Tiananmen Square incident.

In addition, U.S. President George Bush, on the occasion of the first anniversary of his winning the presidency, expressed his willingness to improve relations with China. To support this, former President Richard Nixon and former Secretary of State Henry Kissinger went to China for informal talks with its leaders. Moreover, on the heels of the Malta talks, the Bush administration sent National Security Adviser Brent Scowcroft to China to brief the Chinese on the superpower summit, and also decided on the lifting of sanctions.

Japan's reaction to such American moves was positive, considering that these moves were in line with Japanese thinking of the matter. Nevertheless, Japan has refrained from taking action before Western countries had done so for fear of provoking severe international opinion against Japan. The government and the LDP [Liberal Democratic Party] also fear negative reactions from the Japanese public if the government resumed new unilateral economic aid before China changes its hard-line policies.

China's anxiousness for the resumption of investments and financial support from the Japanese private sector, including third-phase credits in yen, becomes clear as a result of the Chinese leaders' repeated assurances on "the continuation of the reform policy." However, economic needs will not necessarily allow the leaders to lift martial law soon, given the still strong anti-government sentiments among Chinese intellectuals, a potential threat which could lead to a reenactment of the June tragedy at any time.

Recently, top-level Chinese officials have shown a more toughened attitude, indicating that the United States had continued economic aid to Taiwan where martial law had been in effect for 30 years, and that if the United States extends conditional support such as the resumption of economic aid in exchange for the lifting of martial law, China cannot but refuse to accept foreign aid, as it tries to uphold its own policies without outside intervention. This hardened attitude is viewed by some critics as an indication of Chinese frustration.

Chinese Communist Party executives asserted that the lifting of martial law would not take place before the Chinese New Year on Jan. 27 next year at the earliest. Informed sources in Beijing say that the lifting is not likely before the end of the Asian Games in Beijing next fall. The recent hijacking incident of a Chinese airliner, which is believed to have come as a result of the June suppression, made China more cautious about losing its grip on the people. Although the hijacker does not appear to have any complicated backgrounds in connection with the incident, the Chinese government may delay, instead of advancing, the intended schedule for lifting the law.

How will Japan handle its relations with China? The third yen loan was pledged to start from April next year. The government and the LDP may have to deal with yet another tough question on China even after the general election.

Trade With PRC for 1989 To Hit Record High

OW3112213589 Tokyo ASAHI EVENING NEWS in English 30 Dec 89 p 4—FOR OFFICIAL USE ONLY

[Text] Trade between Japan and China for 1989 is expected to reach a record $19.5 billion despite the political turmoil that followed the violent crackdown on pro-democracy demonstrators in China, the Japan External Trade Organization (JETRO) announced Thursday.

The projected $170 million increase in trade between the two countries is the result of a significant increase in Chinese exports to Japan, the government-run organization said.

Based on trade statistics through November, JETRO estimates Japanese imports from China will reach $11.1 billion for the year while exports to China will total $8.4 billion.

For the 11 months through November, Japan imported $10.1 billion in goods from China, up 13.3 percent from the same period last year. Japanese exports to China dropped 7.7 percent to $7.75 billion during the same period, JETRO said.

JETRO said the increase in Chinese exports to Japan was a result of efforts by the Chinese Government to restore trust and prove its political stability by maintaining product quality and delivery dates. JETRO also said China put extra emphasis on promoting exports as a way to obtain hard currency in the wake of economic sanctions imposed by Western nations to protest the killing of civilians by Chinese troops.

In particular, exports to Japan of textiles and food increased sharply from the previous year, JETRO said.

At the same time, Japanese exports to China declined sharply after China put down the Tiananmen Square demonstrations in June and declared martial law. Exports to China increased 16.8 percent from January through May, but plunged 23.9 percent from June to November, JETRO said.

JETRO predicted that Japanese exports to China will decline considerably in 1990 because of the 21.1 percent devaluation of the Chinese yuan on Dec. 15 and Chinese efforts to limit imports. This will result in an overall decrease in trade between the two countries next year as Japanese imports from China are expected to remain constant, JETRO said.

JETRO is a government-owned corporation supervised by the Ministry of International Trade and Industry. Created to promote Japanese exports, the organization now mainly promotes imports.

Paper Calls CAAC Hijack Handling 'Appropriate'

OW2912091689 Tokyo YOMIURI SHIMBUN in Japanese 17 Dec 89 Morning Edition p 3—FOR OFFICIAL USE ONLY

[Editorial: "Appropriate Settlement of the Chinese Aircraft Incident"]

[Text] On 16 December, a Civil Aviation Administration of China [CAAC] plane, which had left Beijing, was hijacked immediately after takeoff by a Chinese man, accompanied by his wife and child, and made an emergency landing at Fukuoka Airport.

Fortunately, a number of passengers and crewmen, who had been confined in the plane, were released safely without suffering injury. The Chinese man, suspected to be the hijacker, was seriously injured when he fell from the plane, but was arrested by police authorities. His dependents were also placed in custody aboard the plane.

The hijacking incident, in which Japan was involved, is the first to break out in a decade. It shocked the nation, but the incident itself was brought to an early settlement, giving the authorities concerned relief.

Aircraft hijacking is a base, inhumane act. It tries to fulfill demands by terrorizing many innocent people and taking them hostage. It is by no means a justifiable act, no matter what the motives or goals may be. Because of this, all countries sternly deal with the act under international treaties or domestic law.

During police interrogations, the Chinese suspect reportedly stated, "I intended to go to Taiwan, because I have become disgusted with China in the wake of the Tiananmen incident." In view of the gravity of the incident, however, the motive and background need to be investigated in greater detail.

The Government has decided to return the passengers and the plane swiftly, as soon as interrogations and on-site verifications are completed. It has also decided to hand over the suspected hijacker to the Chinese after taking procedures under domestic law. These measures are believed to be appropriate.

Since the 1970 Yodo hijacking incident, there have been 14 cases in which Japanese aircraft were hijacked either at home or abroad. The latest incident is the second case in which a foreign aircraft landed in Japan, and with which Japan had to deal.

In the last case, a Northwest airliner, which left Haneda for Honolulu, was hijacked by an American man in 1977, but the hijacker was arrested at Haneda after the plane had flown back there. He was forcibly extradited to the United States after Japanese criminal procedures were taken.

Under the Hijacking Prevention Treaty (Hague Treaty), to which both Japan and China are signatories, signatories having the suspects in custody are required to either prosecute them under domestic law or hand them over to their home countries. Which to choose between the two options is entrusted to the discretion of the country concerned.

As a matter of fact, the Chinese Government has asked for the extradition of the suspect. However, since there are no separate arrangements made between the two countries on the extradition of criminals, delicate problems were left to be resolved. In the end, a political judgment was passed, giving consideration to Sino-Japanese relations.

North Korea

DPRK Sets Demands for Improving Relations

OW2812153289 Tokyo ASAHI SHIMBUN in Japanese 27 Dec 89 Morning Edition p 2—FOR OFFICIAL USE ONLY

[By correspondent Ono]

[Text] Beijing, 26 Dec—Liberal Democratic Party [LDP] Dietman Chuji Kuno, chairman of the Dietmen's League for the Promotion of Japan-DPRK Friendship, and his party, who visited the DPRK (North Korea) from 19 December, held a news conference upon arrival here from Pyongyang on 26 December. He said: "To improve relations between Japan and the DPRK, we made several proposals including the unconditional opening of government-level contacts and the settlement of the No. 18 Fujisan Maru issue. The prospects for a breakthrough now is uncertain, but I got the impression that a slow thaw is beginning."

Mr Kuno said his group met with Mr Kim Yong-sun, head of the International Department of the Workers Party of Korea (and a party Central Committee member), and others and made proposals on bilateral economic exchanges, improving communications networks, direct charter flights, humanitarian issues (release of No. 18 Fujisan Maru crewmen), an LDP delegation visiting the DPRK, and the possibility of opening government-level contacts.

On improving Japan-DPRK relations, North Korea has demanded that Japan 1) does not support schemes for two Koreas, 2) corrects its policy of unilaterally supporting the ROK and discriminating against North Korea, and 3) recognizes the rights of Korean residents in Japan and stops putting conditions on their travels.

Economic Affairs

Article Claims Super-Bloc May Dominate Trade

OW2412132389 Tokyo THE DAILY YOMIURI in English 23 Dec 89 p 9—FOR OFFICIAL USE ONLY

["Currently Speaking" article by YOMIURI SHIMBUN staff writer Yasuhiko Shibata: "Proposed Europe Super-Bloc May Dominate World Trade"]

[Text] The "Great European Economic Area," which centers around the European Community market unification in 1992 and covers the European Free Trade Association (EFTA) and the Council for Mutual Economic Assistance (COMECON), is likely to be realized by the year 2000.

The joint ministerial conference of the 12-nation-member EC and the six-nation-member EFTA Tuesday decided to begin practical negotiations for forging the European Economic Space (EES) of the 18 nations, while the democratization of East European nations, except for Romania, are offering foundations for a larger common economic area in Europe.

Research by a Japanese domestic financial institute indicates that 83 percent of Japanese companies currently concerned with direct overseas investments are scheduled to implement new investments within three years.

The EC is the region where most investments will be made with one-third of the total and surpass investments in the United States, the Association of Southeast Asian Nations and the newly industrializing economies.

In addition, according to "The Prediction of the World Trade in 1990's" by the Japan External Trade Organization, world trade will continue to increase next year and amount to $3.2 trillion, up 6.4 percent from this year.

It is noticeable that according to the report, the EC will occupy the highest rate with more than 30 percent of the total increase of imports and exports. In other words, the EC, followed by the United States and Japan, will lead world trade. This structure represents the great change in the European image from the "sunset" to "progress."

Tuesday's conference in Brussels as regards the EES also seemed to accelerate Europe's progress.

The negotiations between the EC and the EFTA originated from 1973 meetings between the EC and Switzerland which then worried about subsidence of its economy. Following an agreement to guarantee mutual, equal advances of both EC and Swiss firms, the Swiss decision to join the EC greatly stimulated other EFTA nations.

It can be said that the vision of the EES stemmed from a historical stream in which all European nations currently feel they do not want to fall behind in market unification, just as the Swiss case shows.

The EES, which would realize liberalization of trades of commodities, services and capitals and travel within the 18 nations, is not only epochmaking, but so appropriate to the economic principle that the new organization is expected to have a large effect on vitalization of both European and world economies.

The EES vision will be prompted all the more by the 10 Comecon nations approach to the EC.

Visiting the EC headquarters shortly before the ministerial conference was held, Soviet Foreign Minister Eduard Shevardnadze proposed establishment of a new committee for extension of economic exchanges among the EC, the EFTA and Comecon. It could possibly lead to the Great European Economic Area. As democratization and economic reforms in East Europe are caused by historic necessity and call on material and spiritual aids from Western camps, the possible foundation of such a vast economic area is not so far off.

Many Japanese business leaders have been anxious about the EC's market unification because they believed several global economic blocs would emerge. Such fears will exist until U.S. protectionism weakens.

Though national boundaries and countries are originally not so much unnecessary as harmful, it is too optimistic to regard the moves in Europe as the first step for a world unified market, in which all commodities, services, capital and people can move freely.

The EES partially envisions the possibility that the European nations together would crush the all too strong Japanese economy.

Paper Urges Japan to Integrate in Global System

OW3012041689 Tokyo THE JAPAN TIMES in English 29 Dec 89 p 18—FOR OFFICIAL USE ONLY

[Editorial: "Capitalism's Coming Costs"]

[Text] The events of 1989 have challenged so many widely held assumptions about communism and capitalism—and about the postwar balance of power—that we are left with few theories to help us understand what is happening to the world we thought we thought we knew. Mr. Francis Fukuyama, a policy planner at the U.S. State Department, has attracted wide attention with his theory that history has come to an "end." He has since clarified that he means by this not that events have ceased to occur but that ideas have ceased to evolve. He follows the German philosopher G.W.F. Hegel in suggesting that history is primarily an evolution of ideas.

In the 20th century, history has been characterized by a competition between the ideas of liberal democracy and communism. The demise of the communist ideology in Eastern Europe signifies the ultimate victory of liberal democracy. With no further ideological battles to fight, Mr. Fukuyama argues, we have arrived at the end of history.

Few Japanese, Americans, or Europeans seem to share Mr. Fukuyama's philosophical perspective. Many, however, share his sense that capitalism has achieved a kind of "victory" over communism. Capitalist democracy has been proved "right" while Marxism-Leninism has been proved "wrong." Why else would the peoples of Eastern Europe go to such lengths to trade one system for another?

Unfortunately, things are not that simple. Communism has never been a complete failure, nor has capitalism been a complete success. If there are any lessons to be gleaned from the events of 1989, they do not point to a total victory or defeat for either system.

Communist economies are more effective than capitalist ones in mobilizing economic resources. Both the Soviet Union's Josif Stalin and China's Mao Zedong were able to marshal enormous resources to invest in manufacturing plants, starting the process of large-scale industrialization far more quickly than would have been possible in a capitalist economy.

But communist economies are not as effective as capitalist ones at directing economic resources toward their most productive uses. Without a price mechanism, government officials have a hard time deciding where to invest their resources.

In other words, command economies have the power to jump-start large-scale industrialization, but they are unable to maximize efficiency. Such countries expand economically by making huge investments in productive capacity, but they cannot produce efficiently enough to compete with those of the Western industrialized world. This explains why the Western nations were relatively successful at an early stage of industrialization but have somewhat stagnated since.

Some Western analysts argue that a simple comparison of Western and Eastern Europe demonstrates that capitalist economies work better. But these experts forget that Western Europe has always been ahead of Eastern Europe economically. In fact, some economists estimate that Eastern Europe is no further behind the West today than it was before World War II.

The real lesson of 1989 is that it is difficult to remain a Marxist-Leninist country in a democratic-capitalist world. With modern advances in communication and transportation, the peoples of the communist countries have become aware of the lifestyle of the capitalist West. They are demanding the material benefits of a capitalist system and the freedoms of democracy. Their governments may not achieve these goals, but they are left with no choice but to try.

In the decade of the 1990s, capitalism will have to face up to more of its own problems, including large inequities in wealth distribution and unemployment and homelessness. To date, Japan has escaped some of the worst problems plaguing other capitalist democracies. The Government has been more willing to intervene in markets to streamline the painful process of structural change in the economy.

The nation's social system also has mitigated some of the costs of the market system. We do not have the huge wage disparities within a company that are prevalent in the United States and Europe and the companies have been able to avoid mass layoffs. Japan in the 1990s will find it necessary to integrate itself still further into the global capitalist system. But we must remember that capitalism, like communism, imposes its own costs on society. For this nation, those can only grow in the years ahead.

Dual Results of Investment Abroad Analyzed

OW2212104789 Tokyo THE JAPAN TIMES in English 20 Dec 89 p 20—FOR OFFICIAL USE ONLY

[Editorial: "Help for Entrepreneurs Abroad"]

[Text] While Japanese acquisitions of famous American buildings and companies have attracted wide media attention, a large amount of venture capital from corporations in this country also has been quietly finding its way into small-scale U.S. high-technology undertakings. This has the dual result of making it more difficult for entrepreneurs at home to find funding and of causing some American observers to voice concern over control of strategic technologies falling into foreign hands. The usual practice has been for small companies, often started by individuals associated with top U.S. engineering and technical universities on both East and West Coasts, to first look for capital at home. But recently they are reported to have come up dry and been forced to try to market their ideas to a wider audience.

That can mean looking overseas for corporations with matching interests. Typical of these American start-up companies are those that are the brainchildren of faculty members at Massachusetts Institute of Technology (MIT), Stanford University and the University of California. Although our investors may find them attractive, the practice of university researchers setting up companies to market ideas that stem from their laboratories is still largely unknown in Japan.

Recent examples underscore that the prime areas of interest for investing Japanese corporations are new ventures in computers, microelectronics and biotechnology. A notable recent example was the purchase of a one-sixth share in NeXT Inc., the new company set up by one of the founders of Apple Computer, by one of our largest camera and office automation equipment manufacturers. The U.S. company produces upscale personal computers with particular education applications. For the Japanese side, the investment helps to expand its overall market since it already supplies optoelectronic components to the American maker. It also provides a more direct route to breakthrough ideas from the U.S. company.

In another recent case, a major American producer of what are known as "reduced instruction-set computing" (RISC) microprocessors—increasingly popular because of their speed—has received equity funding from a Japanese heavy machinery manufacturer. With heavy industrial equipment in a relatively slow-growth period, it is not surprising that a leader in the field here has been enthusiastically investing in start-up U.S. firms based on promising ideas. But if such capital funding across the Pacific becomes increasingly common, will it foster new "investment friction"?

One of our major electronics manufacturers also is reported to have invested in a small U.S. RISC microchip maker; other Japanese investors in start-up data processing ventures include some of the nation's leading steel producers, for business diversification. Specialized high performance computers, including supermicrocomputers, are to a large extent a field for entrepreneurs in the U.S., one that is of increasing interest to investment-minded Japanese corporations. Here at home such manufacturers are usually affiliated with the major electronics manufacturers. This is also true, though less so, of software.

The situation that has developed is that while many U.S. high-tech companies, particularly in the computer industry, are experiencing a market downturn and reduced profitability making it more difficult for them to invest in small spin-off companies, cash-heavy Japanese corporations are less hesitant to invest in risky start-up ventures that may pay off at some future time. It seems as if the American stock market tends to discourage such corporate investing, while the Japanese market typically pushes up prices of the shares of companies that help fund promising U.S. venture capital firms.

The fact is, of course, that Japan offers investors few such entrepreneur-based opportunities. There have been a handful of exceptions during the postwar period, and there will be more, but industries such as microelectronics, data processing, biotechnology and pharmaceuticals are largely dominated by big names. Our business culture at home still emphasizes established corporate identities and looking with suspicion at the new and untried. As long as that is the case, American entrepreneurs will still find it possible to gain attention—and capital—in Japan while the homegrown type may have to do the same abroad.

* BOJ Official Speaks Out on Price Differences

41060078A Tokyo NIHON KEIZAI SHIMBUN in Japanese 31 Oct 89 p 27—FOR OFFICIAL USE ONLY

[Article by Hidenori Mito, Bank of Japan [BOJ] Price Statistics Section Chief: "Correcting Domestic And Foreign Price Differences; First, Abolish Import Restrictions"]

[Text] (1) Differences between foreign and domestic prices can be classified into four types; foreign brand goods and the same Japanese goods; the same quality Japanese products and foreign products; services; and public rates.

(2) Various types of public regulation, the distribution structure, price policies of export businesses, and consumer brand preference can be listed as factors that interfere with the price mechanism. How to improve these is the key to shrinking the price differences.

(3) As concrete policies for price corrections there are such things as reexamining the resale system and the

Large-Scale Retail Store Law, and a greater expansion of imports by the abolition of various types of import restrictions and the normalization of the price policies of export business and of public rates. Through these policies prices will move flexibly and stability of prices at low levels can be pursued.

Export Prices Lower

First of all when we look at the domestic and foreign price differences of the classic price difference example, that of leading foreign brand items (type A) using a survey done by the Ministry of International Trade and Industry (MITI), we see that prices for such items as perfume, watches and cigarette lighters are from 40 to 70 percent higher in Tokyo than in New York or Paris.

Next, the difference in domestic and export prices of Japanese products, (type B), is virtually nil for items such as passenger cars and steel because they are under export restrictions due to volume quota frameworks.

However, according to a study of the Economic Planning Agency done with a consumer price base, the actual street prices in London and New York of Japanese manufactured television sets, VTR's, and color film and the like are are about on the same level as Japanese domestic prices for those items even with the ocean shipping charges and distribution costs in the country where the goods are sold are added in, where one would expect that Japanese domestic prices would be lower. From this evidence it is surmised that the price of these goods at time of export is less than that of the Japanese domestic price.

Third, there are also cases where there is virtually no differences in domestic and foreign price for foreign and Japanese products of the same quality (type C), because for some classes of intermediate goods such as cotton yarn or wood planks there are no controls and they are exposed to competition.

However, on a consumer-price basis, prices for finished materials, mainly meats, bread, sugar, milk, and gasoline are fairly high compared with New York and London.

Fourth, is the price difference in services (type D). According to the survey by the Economic Planning Agency, Japan is relatively cheap for such things as haircuts or movie tickets, where the principle of competition is a motivating factor. In such things where competition is not a factor as in the public tariffs for electric or gas rates and bus fares, and the like, Japan is fairly high compared to the other important nations.

When you look at the overall price level with sources from the OECD (Organization for Economic Cooperation and Development) Japan was about the same as Switzerland, the United States, and Canada in 1985. However, with the rapid rise in the value of the yen, prices in Japan in 1988 had become relatively higher than in the other important countries starting with 1.6 times those in the United States, and 1.3 times those in France.

Truly this condition is a reflection of the strong yen overseas and the weak yen at home. With the high yen Japanese national income has become the highest in the world, but high price levels are also the source of the fact that the people are unable to achieve any sense of real affluence.

Domestic and foreign price differences have an intimate relationship to the exchange markets and in the Japanese case, with the process of the rapid rise in the price of the yen since 1985, those differences have widened. For a theory of deciding prices in the exchange market, purchasing power parity is the traditional way of thinking. This is the price that is decided so as to equalize foreign and domestic price levels through trade in materials.

The exchange markets recently have been decided by the movement of foreign and domestic capital and it is believed that purchasing power parity has been difficult to establish. On account of this, even if it is exceedingly difficult to eradicate foreign and domestic price differences completely, it is possible to shrink them.

In that regard, Japanese prices since 1985 have been steady compared with those in the United States and by not allowing domestic prices to rise compared to foreign prices it will be fully possible to shrink the gap between foreign and domestic prices.

The question in confronting the problem of smoothly bringing about a decrease in the differences between foreign and domestic prices is whether there are particularly important factors that hinder the price mechanism.

There are four main things that can be thought of as such factors in the Japanese case. They are: 1) public regulation (corresponding to type C and type D); 2) the inefficiency of the distribution structure corresponding to type A and type C); 3) export industries' price policies (corresponding to type B); and 4) consumer behavior (corresponding to type A). We can say that the key to shrinking the price differences is somehow to relieve these bottlenecks.

"Safety Valve"

Among public regulatory controls the ones that influence prices can be classified into three main types. These are: 1) the price barriers for imports because of remaining import restrictions and national trade items lists and administrative guidance and the like; 2) limits on new participation in the market due to the alcohol manufacturing and sales system; and 3) public tariffs. The weight occupied by these regulated items on lists of items used in price indexes is about 18 percent on wholesale prices and rises to about 28 percent on the consumer price index.

When we look at the extent of the influence that these kinds of restrictions have on wholesale prices, we see the domestic wholesale prices for regulated items such as whiskey, wheat and beef and the like are moving sideways in spite of the fact that the import prices are falling.

On the other hand, in the face of falling import prices for such non- regulated items as cotton yarn, plywood, and steel, domestic prices too drop, and again the flow in of cheaper imported products works as a factor pulling domestic prices down. If we estimate the degree of contribution of this kind of import "safety valve" it is an effective lowering in the domestic wholesale price index of about two points compared with the same time last year.

The productivity of Japan's retail industry is not inferior to that of England or West Germany. The existence, too, of numerous small-scale retail stores is in harmony with the daily life pattern of consumers who buy small quantities but do so frequently, and we can say that there are logical reasons for business practices such as the returned goods system or rebates.

The problem is systems that work in the direction of hindering movement for structural change, for example the Large-Scale Retail Store Law that in reality regulates the opening of more department stores or supermarkets; or the Resale Law whose reason for continued existence is weakening; or black-market resales that are deeply rooted and keep occurring; and the system of the large manufacturers with their import general agents.

What about the price policies of the export industries? Generally, when export industry sets the price we believe that they decide by thinking about the degree of competition overseas, penetration of products into the market, and the scale of the foreign market.

For example, there is a tendency to set prices lower compared with domestic prices in cases where there is room to expand in foreign markets in comparison to domestic markets, as in home electric appliances and precision machinery. On the other hand, where overseas market expansion is difficult due to export controls for example, such as in steel and automobiles, we think that export prices will be set higher and we can say that this is one factor that gives rise to price differences.

It has also been pointed out numerous times that the brand preferences of Japanese consumers are too strong. There is a deeply rooted belief that foreign goods are equated with high prices, and the mentality that says to buy these goods because they are expensive is fertile ground for causing price differences.

In thinking about a policy to correct price differences, first of all it is extremely important to plan constructively for an expansion of imports. By reexamining the system of import general agents we can rationalize and reduce the size of the domestic distribution routes, and the point is to press efforts to bring sales prices down.

Besides the remaining import restrictions, it is also desirable to eliminate restrictions in an orderly manner such as administrative guidance of various types, restrictions on new entrants into businesses, and price support systems. Hypothetically, if we estimate the simple result of the elimination of all of these various restrictions we could probably achieve more than a 3 percent reduction in domestic wholesale prices.

On the distribution front we ought to reform enforcements that obfuscate and that are out of step with the change in consumer lifestyles such as the number of days stores must be closed or the system of excessive restrictions on hours of operation such as those of the Large-Scale Retail Store Law as the aim is to encourage new participation and to foster competition.

Even concerning the resale system, together with checking whether or not there are illegal resales outside of designated products like books and records, or that manufacturers serving as their own general import agents do not produce profit conflicts, the strict surveillance of the Fair Trade Commission on top of the Anti-Monopoly Law is desirable.

The store system for liquor and gasoline and the like is a policy that lets foreign firms enter the businesses easily and puts the consumer first and we should loosen these regulations significantly.

Concerning government price policy it is probably necessary first to reexamine the system of public tariffs. We should establish a fee structure that the people agree with and with full corporate disclosure, and we should reexamine the regulations for the affected firms.

Export manufacturers price policy sets export prices low compared to domestic prices in an attempt to expand sales in foreign markets, and the resulting trade expansion has brought criticism from abroad. It would be a dreadful prospect if as a result of increasing imbalance vis a vis foreign nations, exports themselves were regulated and in that sense too, the time has come for Japanese industry to undertake a big reexamination of its price policy.

Consumer Administration

It is probably necessary to have consumer education in order to correct single-minded consumer brand preference. To do that we cannot omit the construction of an organization that can supply detailed consumer information. The strengthening and independence of the consumer administration sectors within the government departments is also a theme that we should probably consider.

The problem of foreign and domestic price differences has many problem aspects that cannot be solved in a day. However, through these various policies if we move to correct the price differences, prices will come to move elastically and we can achieve price levels that stabilize at low levels.

Items Under Public Regulation And Their Weight In Wholesale (A), and Consumer (B) Price Indexes

Brief Type of Regulation	Main Goods	A	B
Price Barriers to Imports		%	%
21 Items Still Under Import Control (Regulated Without GATT Approval)	Beef, Flour, Oranges, Milk, Cream, Coal	2.7	4.9
32 Items on National Trade List (Recognized by GATT)	Rice, Wheat, Barley, butter, salt	1.5	2.3
Price Support System (Stable Price Range System)	Sugar, Raw Silk, Leaf Tobacco	0.5	0.1
Administrative Guidance (Import Approval System, Tariff Allotment System)	Gasoline, Kerosene, Light Oil, C-Heavy Fuel Oil	3.9	2.9
Limits On Business Participation: Liquor Manufacture And Sales Licensing	Whiskey, Brandy, Wine	1.8	1.7
Public Fees			
Price Control or Controlled Participation	Electricity, Gas, Bus, Taxi, Air, Express Highway	7.5	16.3
Total		18.0	28.1

Editorial Analyzes 1990 Draft Budget Program

OW3112204789 Tokyo MAINICHI DAILY NEWS in English 30 Dec 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Does Budget Meet New Age?"]

[Text] A 66 trillion yen draft budget for fiscal 1990 has been approved by the Cabinet. After twists and turns, the fiscal rehabilitation goal of reducing the issuance of deficit national bonds to zero has been achieved.

But is it actually a good budget, as claimed by the state finance authorities?

The world is today in the midst of changes that are momentous in postwar history. Together with the ending of the East Cold War, the current is shifting rapidly from arms expansion to disarmament. At the same time, global environmental problems have transcended the framework of East-West confrontation.

Moreover, 1990 will usher in the last decade of this century. It is truly standing at the entrance to a new age. Can the fiscal 1990 budget fully cope with the problems of the new age?

The defense budget, which has passed the 4 trillion yen level for the first time, shows a 6.1 percent increase. It is kept within 1 percent of the gross national product but only because the GNP itself is growing.

At a time when the worldwide trend, even in the United States and the Soviet Union, is toward arms reduction, should Japan alone expand its defense expenditures which are already the second largest in the West after the United States? Doing so shows insensitivity to the advent of the new age.

Even larger than for defense is the 8.2 percent increase for Official Development Assistance [ODA]. Japan's ODA is already on the largest scale in the world. Increasing this further differs from defense expenditures and is in accordance with the international pledge made at the Toronto Summit.

The increase itself is good but the point is whether the aid being given by Japan is actually contributing to the economic development and stability of people's livelihood in the recipient countries. For example, the political stability of the Philippines, which has seen a large amount of aid, still remains unstable. The problem of aid being wasted has also been pointed out. There is a need to restudy the effectiveness of the aid.

Measures to cope with global environmental problems should be carefully considered as the 21st century approaches. There is much that Japan can and should do about these problems. Most of the items listed in the budget concerning environmental problems are for "surveys and research." Despite their importance, environmental problems are not being given the same attention as defense and ODA.

The draft budget is, in other words, insufficient to cope with the new age. It should be emphasized that what might be called a "strategy for the 21st century" is necessary, setting new goals for the operation of the economy and state finance during the final decade of this century.

The first pillar of such a strategy must necessarily be "contributing to international society." When it is considered that the times are changing drastically from emphasis on "military affairs" to "economy considerations," a conversion of concepts is necessary to curtail defense expenditures and for the qualitative expansion of ODA.

In contributing to international society, global environmental problems cannot be neglected. Japan's technological ability and money power should be directed to this field.

Another problem is social security. This is the first time in 10 years that the increase for social security spending

has surpassed that for defense spending. A "10-year strategy to promote the health and welfare of old people" is being planned. It is planned to increase the number of "home helpers" to 100,000 (31,000 at the present time). This is to aid bedridden old people but merely increasing the budget will not insure that the number of home helpers desired will be obtained.

Budget Draft Satisfying Conflicting Demands

OW0101121890 Tokyo ASAHI EVENING NEWS in English 30 Dec 89 p 3—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 30 December editorial: "Budget and Taxes"]

[Text] It is not easy to draw up a budget that caters to various conflicting demands. But the government-proposed budget for fiscal 1990 seems to have been conjured up to satisfy just such a condition.

In addition to having met the objective to reconstruct national finances by issuing no deficit-financing bonds, the government has accomplished the task finance authorities had faced, by providing for "hidden borrowing" by reviving the transfer of funds to Debt Consolidation Fund Special Account fixed rates from other accounts.

Meanwhile, in an attempt to cater to the ruling Liberal-Democratic Party's desire for generous allotments prior to an expected general election, the government allocated more money for welfare for the aged and other requests made by the Health and Welfare Ministry than the actual sum requested by the ministry. Moreover, allotments for official development assistance and for defense showed high increases. What made the sleight of hand possible is the natural increases in tax revenues for three consecutive years.

There is now a need to think about the demand management measures, when one takes into account the fact that economy is booming and is far from needing governmental bolstering in financial areas but issues like the labor shortage are becoming apparent.

In such a context, Bank of Japan's move to raise the official rate during a time when the government's budget proposal was being drawn up can be taken as its consideration in balancing a swelling budget.

About the so-called priority items, the government and the ruling party have long established a practice that they make a rough budget allotment at preliminary talks before the Finance Ministry presents its draft. We can see some merits in the practice because it ensures the smooth formation of a budget without bringing political negotiations to the fore.

It is regrettable, however, that authorities appear to spend all of their energies just to ensure the smooth formation of a budget. Politicians, who tend to lack a long-term vision in financial management, are now looking at the coming election. In this circumstance, if authorities pay attention to technicalities in finance, their call for "efficient budget allotment" is then something which is of no practical use.

In the coming second-round efforts to restore healthy public finances through improving the balance further and keeping a moderate stance in spending, we hope the government will set up a medium-term goal with the broad view that takes into consideration the next century.

Each of the so-far proposed medium-term goals has merits and demerits, respectively. It is necessary to hammer out a good one through discussion, for instance in the Fiscal System Council. What is the most important criteria from the view point of the nation, however, is the ratio of combined taxes and installment for pension and medical insurance shouldered by the nation to national income, or what is called "national burden ratio."

We should pay attention to the fact that the ratio has risen continuously since fiscal 1987.

During the first half of 1980s, the ratio of taxes to the national income was stable between 22 percent to 24 percent, and the ratio of social security contributions to the national income was less than 20 percent. However both of the two ratios have risen through the last half of 1980s. In particular, the ratio of taxes has boosted, because few income tax reductions have passed during the term when the government sought restructuring the public finance.

The government had earlier estimated that the "national burden ratio" for fiscal 1989 would be 38.8 percent on the initial budget basis. Nevertheless, it is very likely the ratio goes beyond 40 percent. It is because the government enjoyed an unexpected increase in tax revenues, more than Y3 trillion, in the latest supplementary budget. In addition, local taxes also swelled.

As the aging of the population accelerates and thus as total benefits of social security increases, the national burden ratio will head inevitably upward. The Ad Hoc Commission on Administrative Reform came up with its final recommendation in March 1983 that the social security system be thoroughly reformed so as to make beneficiaries' cost sharing rate considerably lower than about 50 percent of Europe.

At present, the national burden ratio in Europe is well above the 50-percent level, but the council for the promotion of administrative reform reconfirmed in June 1986 the basic line formulated by the ad hoc commission.

The council is expected to submit to the government its final recommendation next spring which is likely to state that an increase in national burden ratio be curved as much as possible. We hope that this can be realized. But,

it is possible to imagine that the burden ratio could increase at unexpected pace and thus could be close to Europe's.

The national burden ratio in the United States is the lowest among developed countries. But, issuing a huge volume of government bonds to lower beneficiaries' cost sharing is not a sound fiscal policy.

However, a rapid increase in the national burden ratio in the short run presents problems. If tax revenues exceed more than the initial estimate, as happened in these two to three years, the government should return to tax payers the surplus portion of the tax revenue by lowering taxes. Doing this to restrain the expansion of the national finance shows what the government fiscal policy should be.

Government Urged To Secure Stable Revenue Source

OW3112191389 Tokyo THE DAILY YOMIURI in English 30 Dec 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 29 December editorial: "Fiscal 1990 Budget Drafted"]

[Text] The government drafted the budget for fiscal 1990 Thursday, the first one compiled under the Cabinet of Prime Minister Toshiki Kaifu.

The new draft seems to be spread a bit thin, aimed at reducing national finance debts while at the same time approving as many appropriation requests as possible in order for the ruling Liberal Democratic Party [LDP] to gain popularity before the upcoming general election.

The fiscal 1990 budget seems to be a result of various political considerations.

The best example is the 10-year health and welfare initiative for senior citizens and other social welfare expenses. Comparing item-by-item growth rates in the general expenditure, growth rate for this category exceeds that of defense spending and is second only to official development assistance (ODA) expenses.

The decision was made based on the LDP's pledge to make social welfare programs a priority beneficiary of consumption tax revenues. It could be a welcome response for Japan's rapidly aging society.

Misdirected Spending

However, the expansion of welfare expenditures will increase the burden on the general population over the next decade.

Since this is the first budget of the new decade, we are disappointed that a through discussion of the financial and economical perspectives for the next 10 years did not take place during the allocation process.

One example is the budget appropriation for road construction, which has remained at the same level for the past decade. We think the focus of expenditures for public works should shift to the improvement of housing and public facilities, instead of concentrating on industrial infrastructures.

The project to construct an experimental track for linear motor cars in Yamanashi-ken received its budget allocation without any major cuts, although it is still unclear whether or not it will remain a test course or become a commercial line, in which case huge additional finances would be needed in the future.

An Eye to the Future

It is fine for the government to give our people a dream. But it is not acceptable if the government begins implementing its ideas without sufficient preparation and foresight into the future. A project such as the linear motor car track will only accelerate the existing land price spiral.

The need for public funding is expected to rise further both at home and abroad as our society grows grayer, social welfare needs rise and expectations heighten for Japan's international contributions through ODA programs and various other means.

In view of the opposition's control in the House of Councillors, political pressures to boost fiscal budgets may increase depending on the outcome of the House of Representatives general election early next year.

Fiscal authorities are faced with the extremely difficult task of responding to budget requests from both internal and external sources while improving government financial records.

To satisfy these demands, we hope the government will continue to secure a stable revenue source through the consumption tax and set up long-term fiscal goals for the 1990s.

Concerns Over Unprecedented Economic Boom Noted

OW2912235989 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 p 12—FOR OFFICIAL USE ONLY

["Economic Outlook for 1990" column article by Chikashi Moriguchi, Osaka University economics professor: "Will Current Economic Boom Fall Victim to Itself?"]

[Text] Will the Japanese economy be a victim of its own success?

To look at the current picture, you wouldn't think so. The present expansion, now entering its fourth year of continued growth, is expected to surpass the so-called "Iwato Boom," the second longest in postwar history, that lasted 42 months, from June 1958 to December 1961.

Capital spending is surging ahead, with recent surveys showing that the ultimate goal is greater efficiency of

business operations. In addition, most investment is being earmarked from funds that companies have at hand; when they are compelled to borrow, the capital here is still cheaper than in most other industrial nations.

Yet, there is a danger that the nation's economy could grow to an unprecedentedly large size through the current expansion, leading to overheating and a further aggravation of the labor shortage.

GNP has increased eight-fold over the past 30 years and is now 2.5 times higher than the nation's total output of goods and services during the 57-month "Izanagi Boom," the longest in postwar history, from 1965-70. And despite the relatively moderate pace of the recent growth, bottlenecks are at hand whenever a nation's economy becomes so huge.

Reasons for strong expansion

The current strength of the economy stems from four main factors.

First, Japanese companies scrapped their capacity by implementing comprehensive fat-trimming programs during the low-growth period in the first half of the 1980s. Since 1987, however, the projection of corporate earnings was significantly revised upward, bringing about a long-lasting capital-spending binge.

Second, robust overall demand is supported not only by increased disposable income brought about by economic growth but also by price gains in stocks and land owned by Japanese households, particularly in cities.

Third, the benefits of capital gains are greater to companies and help them raise funds more readily. Companies can expand investment to streamline operations, achieve technological breakthroughs and launch new businesses on a long-term basis.

Fourth, supply shortages of labor, parts and raw materials are apt to be eased. In the final days of the Izanagi Boom, economic growth took place on a global scale and caused supply shortages worldwide. Now, however, supply of parts and materials can be raised by imports from the U.S. and Asia's newly industrializing economies.

But these reasons alone cannot justify optimism about the future.

Acute labor shortage

For instance, the labor shortage is so acute that it could act as a drag on supply, tightening the market situation. This, in turn, could threaten investment to expand production capacity.

The reason: When a labor shortage causes a delay in building and plant construction, supply of goods such as cement and steel can become excessive. It may also induce cost-push inflation and a resulting tightening of monetary policy. Besides, the economy may slow when a cyclical demand for durable goods enters the downward trend.

In addition, consumption expenditure on durable goods by both general and wage-earning households shows signs of slowing down, although the two categories should be fully benefiting from increased asset value and higher income.

For example, spending on videocassette recorders and passenger cars, except luxury models with 3,000cc or more powerful engines, is expected to slack off. That may be taken as evidence that demand has run its course, as shown by the widespread use of durable goods.

The chances of cost-push inflation seem slight because imports of products, if they continue, will have the same effect as imports of labor. In the medium and long term, Japan may be able to overcome its labor shortage since workers will be available as a result of the rationalization of distribution, service and other nonmanufacturing sectors.

Possible slowdown

An economic slowdown, if any, would result from a weakening of demand. In the auto industry, which greatly affects other industries, weaker demand for passenger cars will have a particularly strong impact on the nation's economy.

Robust domestic sales of automobiles are making up for a drop in exports at present. But when booming sales of luxury cars at home come to an end, automakers may suffer a setback and reduce capital spending. And there is already a serious oversupply in the world auto market.

The Japanese economy has apparently neared, if not reached, the ceiling in view of the high operating ratios and the urgent labor shortage. The need to liberalize the labor market is growing.

The overheating must be cooled by monetary measures as part of short-term economic policy. And another increase in the official discount rate may be necessary to prevent the yen's further depreciation and high land prices spreading across the country. The adverse effects of higher interest rates on demand for durable goods and capital spending will not be as strong as feared.

Column Views Automobile Export Quota Issue

OW2512115189 Tokyo THE DAILY YOMIURI in English 24 Dec 89 p 1—FOR OFFICIAL USE ONLY

["Economic Forum" column article by Yoshio Matsui, YOMIURI SHIMBUN economic editor: "Ignore Calls To Abolish Export Limits"]

[Text] Talks have been begun in various forums on whether and how Japan will continue its self-imposed restrictions on exports of cars to the U.S. market.

It seems rather unreasonable to take the issue to an intergovernment level, inasmuch as it is only a voluntary step taken by the Japanese automobile industry. But there is a possibility that International Trade and Industry Minister Hikaru Matsunaga will inform the United States of Japan's intentions in the matter during his visit to the United States starting Jan. 8.

The voluntary export restriction has continued since fiscal 1981. For the first six years after the restrictions were agreed on, Japanese carmakers shipped as many cars to the U.S. market as they were allowed to under the limit. This means, obviously, that they would have exported more cars without the restriction. In this sense, the limits served the purpose for which they were enacted.

But since fiscal 1987, Japanese automakers have not been able to export the self-set limit of 2.3 million units. Exports for the current fiscal year are expected to reach only about 2 million.

The principal reason for the failue to reach the maximum level, is that the Japanese automakers' plants in the United States have begun to produce a large number of cars. Total production of passenger cars and station wagons for commercial use in fiscal 1990 is estimated to increase by about 400,000. Therefore, exports of finished cars from Japan are certain to decrease.

With this, the self-imposed restraints become nonsense. Some Japanese auto firm executives have begun to assert that Japan should lift the voluntary restrictions.

Restrictions of this kind amount to a sort of controlled trade. It is unreasonable and hypocritical for the Japanese and U.S. governments, while espousing free trade, to demand that the voluntary restraints continue.

In fact, however, there is strong support for continuance of the restrictions. Those who call for Japan to voluntarily limit car exports seem to fear that the exports would increase significantly if the limits were removed. Even if the self-imposed restraint is now a limit only in name, it has symbolic value to show that Japan is devoted to the ideal of propriety in exports.

Moreover, recent sales of passenger cars have been slack in the U.S. market. Sales of cars in September were equivalent to a 10-million-a-year rate, but in October it had dropped to 8.8 million, and by November to 8.5 million.

In light of such trends, the International Trade and Industry Ministry recently has been leaning towards maintaining the restraints in some form. Then the problem is whether the limit itself will remain unchanged, or even lowered.

The simplest and easiest way for Japan would be to maintain the current level. But the United States may not accept this. If so, it would be better for Japan to lower the upper limit.

The restraints are taken voluntarily by Japan. There is no obligation to respond to every whim or complaint of the United States. But as long as Japan is observing the restraints, it is pointless to willfully act in a way that will irritate its trading partner.

Defense Agency Faces Challenge To Buildup

OW2812030489 Tokyo THE JAPAN TIMES in English 27 Dec 89 p 2—FOR OFFICIAL USE ONLY

["Analysis" column article by JIJI PRESS: "Defense Buildup Efforts Caught in Policy Cross Fire"]

[Text] Time is running short for the Defense Agency to finish work on a buildup program to begin in Fiscal 1991 because of uncertainty over U.S. defense policies toward Japan and the domestic political situation.

Although the agency intends to draft a program by May, it has yet to draw up an outline for front-line equipment.

Nevertheless, the Self-Defense Forces are trying to estimate the equipment needed to meet their defense buildup blueprints.

The Ground Self-Defense Force [GSDF] plans to shift its strategy from preparedness for protracted warfare to water's edge defense. It also plans a shift from the present organization of 13 divisions to one based on brigades if the weaponry improvement list, which is attached to the 1976 long-term defense buildup outline, is amended.

Among weapons the GSDF wants to procure are AH-64 antitank helicopters and multiple-launch rocket systems [MLRS].

With many old warships due to be retired from service, the Maritime Self-Defense Force plans to build modern replacements and to procure two Aegis vessels.

The Air Self-Defense Force [ASDF] intends to introduce Airborne Warning and Control System [AWACS] planes and in-flight refueling tankers, which will enable the ASDF to expand its operations from air defense to support for ground operations and many other activities.

Talks Should Have Begun

Had all gone according to schedule, the Defense Agency should have already kicked off preparatory talks with U.S. defense contractors on licensed production of those weapons.

But an agency official said, "We are in no mood to hold talks with the United States." His statement apparently reflects the Japan-U.S. flap over the FSX, the nation's next-generation support fighter. The project was launched earlier this year.

The bilateral plan to jointly develop a new fighter encountered last-minute opposition from U.S. lawmakers who feared Washington may give away its technological edge.

The U.S. Government has since become so nervous about the transfer of defense equipment and technology to Japan that Tokyo is not sure when, if at all, it will be licensed to manufacture AH-64 helicopters and multiple-launch rocket systems.

Although Japan signed a contract to build two Aegis ships under U.S. license, the agency official says there is no guarantee Japan will be allowed to build more.

Spending Cuts

Japanese defense officials are also concerned about Washington's plan to cut spending by $180 billion. If the plan goes ahead, they fear Japan may not be able to produce MLRS and other weapons under license because American defense contractors will pressure the Japanese to buy their products rather than technology.

In fact, some U.S. lawmakers are demanding Japan buy AWACS and in-flight refueling tankers. And because of bilateral trade friction, Japanese defense officials say, an outburst of U.S. demands for Japan's weaponry purchases could become uncontrollable.

Civilian officials at the Defense Agency are as negative about the planned procurement of in-flight refueling tankers as they are about offensive aircraft. But it will be difficult for them to remain opposed to the purchases if the United States exerts more pressure.

The domestic political situation is another cause for the delay in mapping out the defense buildup program.

Since Prime Minister Toshiki kaifu took office in August, he has not convened a single meeting of the National Defense Council, so the Defense Agency still cannot figure out how to deal with legal and other issues related to the buildup.

Government sources say nothing will be done before a general election for the Lower House, expected in February.

As U.S. Secretary of Defense Dick Cheney will visit Japan after the election, the agency is likely to begin making concrete plans for the buildup then.

Defense Budget Relects 'Prudent Attitude'

OW3112200789 Tokyo THE DAILY YOMIURI in English 30 Dec 89 p 1—FOR OFFICIAL USE ONLY

[Text] The fiscal 1990 defense budget ratified early Friday by the cabinet shows the government's prudent attitude toward changing U.S.-Japan defense relations, the continuing progress in East-West dialogues and detente, according to political observers.

The defense budget approved for fiscal, 190 is 4.1593 trillion yen, up 6.1 percent from the current fiscal year. It weighs in at 0.997 percent of the Finance Ministry's estimate for the 1990 gross national product, marking the first time in four years that the defense budget has not exceeded 1 percent of the GNP.

The defense budget is 24.3 billion yen large than the Finance Ministry's original budget draft presented before reinstatement negotiations between the ministry and the Defense Agency.

The agency has been worried, especially after the opening of the Berlin Wall in November and the general pattern of detente in Europe, that the public would demand cuts in the defense budget. To combat influence from the public, agency officials repeatedly emphasized that Soviet forces in the Far East have not been decreasing, the observers said.

The heavily cut defense budget in the Finance Ministry's draft budget was massively reinstated as ministry officials accepted the arguments of the Defense Agency and Liberal Democratic Party members closely related to the agency and the defense industry, observers explained.

The 1990 defense budget will allow the mid-term defense build-up plan, set to end in the next fiscal year, to be achieved 99.9 percent.

During this year, U.S. demands that Japan increase both its defense spending and its share of the costs of supporting U.S. Forces in Japan intensified. Japan and the United States also ran into problems over the Japan-U.S. joint development of the FSX, a next generation fighter support plane.

The Finance Ministry did not allow the Defense Agency to include development costs for a prototype of the FSX in its draft budget. However, 34.6 billion yen for the development was reinstated during the last-minute ministry-agency negotiations.

The final approved defense budget also includes 168 billion yen for U.S. Forces in Japan, part of which will be used for rennovating their dormitories and residences. The figure is up by about 20 percent from the current fiscal year.

As for Self-Defense Forces' facilities, buildings at 63 bases and posts will be rebuilt or rennovated. Residential buildings housing 1,759 military personnel and their families and 25 gymnasiums will also be constructed or rennovated.

Concerning defense equipment, the ministry allowed the agency to reinstate funding for a second AEGIS weapons control system equipped vessel, 30 new tanks to replace old tanks, two F-15 fighters and one submarine-spotting P3C plane.

The total numbe of F-15 fighters and the P3Cs approved in the budget will thus stand at 10 and eight, respectively.

The retiement age of Self-Defense Forces members was extended in some divisions as part of the agency's plan to get more young members, a key goal of the agency.

Defense Expenditures of Recent Decade

Fiscal Year	Original Budget (Unit: Tri. Yen)	Annual Percent Growth	Percent of GNP
1981	2.4	7.6	0.91
1982	2.59	7.8	0.93
1983	2.75	6.5	0.98
1984	2.93	6.6	0.99
1985	3.14	6.9	0.997
1986	3.34	6.6	0.993
1987	3.52	5.2	1.004
1988	3.70	5.2	1.013
1989	3.92	5.9	1.006
1990	4.16	6.1	0.997

Paper Questions Rationale for Defense Buildup

OW2612142589 Tokyo ASAHI EVENING NEWS in English 25 Dec 89 p 5—FOR OFFICIAL USE ONLY

[Article by Kiyofuku Chuma, ASAHI SHIMBUN reporter: "Japan's Defense Buildup; Doubts Rise With Soaring Expenditure"]

[Text] Cuts in military forces and budgets are becoming a global trend following advances in the tension-easing talks between the United States and the Soviet Union and the recent great changes in world affairs.

The two military superpowers, the United States and the Soviet Union, are no exception from this trend. U.S. cuts in military spending will help reduce the country's huge debt as well as project a favorable image not only to its own people but also to people in Japan.

Japan is now in the process of drawing up its defense budget for fiscal 1990 that starts in April. It is certain to exceed Y4 trillion. Its fiscal 1989 defense budget was the second largest in the Western bloc behind the United States, according to NATO calculations.

Critics have questioned why Japan must continue to build up its defense budget against the world trend of military reduction. They maintain that Japan should follow the example set by its ally, the United States, and reduce its defense spending.

Japan's Defense Agency, however, rejects this viewpoint for three reasons.

For one, defense officials maintain that Japan has yet to improve its basic defense capabilities because the nation's defense started out from nothing after the war.

Secondly, modernization of military forces is a global trend and Japan cannot neglect updating its defense equipment.

Another reason given by the agency is that the Soviet Union continues to build up military power in the Far East.

Defense officials explain that the first and second reasons have nothing to do with improved superpower relations or the easing of tension in the world and the third reason supports the fact that tensions have not eased in Asia.

Japan, therefore, must continue to upgrade its defense forces, the officials maintain.

Nevertheless, the issue must be viewed in a different light, although the defense officials will never say so.

Because the United States will reduce its military spending, it is inevitable for it to withdraw some of the U.S. military forces now based in Japan and to reduce forces deployed for emergencies. The United States would request its allies to fill in the "vacuum" created by such cutbacks—this would increase in the so-called burden sharing.

Japan, especially, is likely to be pressured to take on more of the burden sharing. It is likely that Japan's defense spending will continue to grow on the theory that circumstances in Asia are different from those in the West and that burden sharing is a matter of course under the Japan-U.S. Security Treaty.

We must be prepared for an ironic result—that the reduction of U.S. military spending will lead to an increase in Japan's defense spending.

Critics have described Japan as having "a first-rate defense budget with third-rate forces." What is needed at this point is to define the nation's objectives in defense matters and to re-examine expected means that should be taken to meet them. As things stand, many fear that soaring defense spending may know no limits.

It is true that the new U.S.-Soviet amity takes a complicated form in the Asia-Pacific region. Expansion of naval forces is an example of this. The United States—which has superiority in this area—stresses without reserve that it has no interest in a reduction of naval power.

I heartily agree with the view held by Francois Heisbourg, who heads the International Institute for Strategic Studies in Britain, that "there is no reason why naval forces should have immunity vis-a-vis arms control."

It is deplorable to have military forces of the United States and the Soviet Union confront each other near Japan. It is all the more so if Japan should become involved in it.

It would be unwise to start negotiations only after the Soviet forces in the Far East have grown to the size of the U.S. Seventh Fleet.

If the negotiations for reducing naval forces in the Asia-Pacific region should progress slowly, improved relations in the region will also be slow in coming. Japan's attitude concerning the issue is, therefore, now being questioned.

Editorial Shows Alarm at Growing Defense Budget

OW3012135289 Tokyo MAINICHI DAILY NEWS in English 29 Dec 89 p 2—FOR OFFICIAL USE ONLY

[Editorial: "The Defense Budget"]

[Text] The fiscal 1990 draft defense budget has cleared a record four trillion yen, but will be within 1 percent of the gross national product for the first time in four years, only because the GNP itself is growing, and the practice to treat defense as a sacred cow continues.

The 6.1 percent increase had been taken for granted in the final year of the nation's medium-term defense plan, because of the theoretical Soviet threat and Washington's demand that Japan take on a bigger share of the defense burden. Also noteworthy is the fact that spending on personnel and future obligations involving weapons have tightened defense finances.

However, the world is now entering a period of arms reduction in the new post-Cold War era. For Japan, too, it is time to stop and reflect upon the nation's security and defense budget. Thus, it is expedient that our current rapid defense buildup, initiated by the self-serving interests of various government agencies, should be reconsidered drastically. It is regrettable that the Finance Ministry has manifested no change in its way of thinking.

Already, nations are searching for post-Cold War security to respond to the metamorphosis in international relations. Both Washington and Moscow, the protagonists in the Cold War, are instituting major cuts in defense spending and troops. Yet the Defense Agency and Foreign Ministry seem so far removed from what is going on in the world, still thinking that the modernization of Soviet forces in the Far East poses an increased threat and that detente is yet to come to this part of the world.

While past arms reduction talks have mainly concerned Europe, a similar move toward disarmament is inevitable in Asia and the Pacific as well, considering the state of East-West detente and economic conditions in the United States and the Soviet Union. The United States maintains a far superior navy and air force in Asia and the Pacific, backed by Japan's Self-Defense Forces. Although reductions in Soviet Far East forces would have to be verified, adhering to a defense policy based on a "Soviet peril" theory is not only counter to the prevailing international situation but also lacks rational grounds.

The Defense Agency emphasizes that it will consistently pursue its buildup policy to complete a minimum and fundamental defense capability that should be maintained in peace time. But Japan's defense expenditures are already the second largest in the West after the United States, with qualitative features such as weapons and anti-submarine capabilities among the best in the world. To continue a buildup at the current pace can bring anxiety to our Asian neighbors and runs counter to detente.

This concern is evidently shared by some members of the Liberal-Democratic Party. Its newspaper, the Jiyu Shimpo, carried an anonymous article in its Dec. 19 issue titled "Japan's Diplomacy and Defense After Malta," forecasting the 1990s and beyond as an age of economic, not military, power, warning of Japan's possible isolation unless it joins the world trend under U.S.-Soviet cooperation, and calling for a brake on our ever-growing defense spending.

To respond to today's changing international relations, let the next defense budget be the momentum to examine our security. A review of the entire defense budget is mandatory. Priority should be changed, with a cut in weapons spending and more outlays for better barracks and welfare facilities for servicemen.

As a brake on defense expenditures, the 1 percent GNP ceiling, which then Prime Minister Yasuhiro Nakasone scrapped, should be restored, and a policy to maintain future defense budgets in restraint should be studied. A defense budget without an effective brake, as in the medium-term defense plan, just keeps swelling. The government should not be obsessed with achieving the medium-term plan in the next budget.

Instead, Japan needs to clearify a position of comprehensive security, in which the country would contriute to the stability of Asia and the Pacific, through more active diplomacy and nonmilitary cooperation such as economic assistance. A reduced defense budget will give credence to Japan's positure to that end.

Construction Industry Admonished on Dango Ruling

OW2312090789 Tokyo THE DAILY YOMIURI in English 21 Dec 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 20 December editorial: "Bid-Rigging Ruling"]

[Text] The construction industry should take careful note of the sentencing by the Mito District Court of three executives to suspended prison terms for bid rigging in a bid for an Ibaraki-ken contact to dredge a river.

Article 96-3 of the Criminal Law, which has been nearly forgotten, stipulates the crime of premeditation in bid rigging. This article was used to find the executives guilty.

Collusion in bidding is usually done in secret and, therefore, is very difficult to prove. Therefore, this article is seldom used to prosecute offenders.

In this case, a conference was held prior to bidding by 11 specified bidders. As a result of their collusion, it was decided that one firm would become the successful bidder and another firm would undertake the actual work as a subcontractor. Three companies were to share the Y32 million profits.

The court pointed out that if this practice continued to prevail, it would undermine the bidding system itself and result in a waste of public money as well as invite public distrust of bids for public works.

Fair Competition

This particular law on bid fixing has not fallen into oblivion but was used to successfully prosecute wrongdoers. The construction industry, which has been severely criticized for its collusive nature, should realize that the Mito court's ruling will not remain an exceptional case.

To prove illegal price-fixing, two points are taken into consideration. These are fairness in the terms of the price bid and illegal profits firms make from the contracted work. However, it is hard to establish guilt through these points.

In its ruling, the Mito court said a "fair price" is a price bid through fair and free competition. Based on this, the court calculated a fair price for the dredging contract should have been between Y76 million and Y95 million. The court expressed the view that the price offered by the prefectural government itself was excessively high in the first place.

It is generally understood that government offices set substantial profit margins in their estimates for public works.

Vicious Practice

This attitude on the part of government bodies makes it difficult to determine a "fair price" and thus encourages bid-rigging and the waste of taxpayers' money.

Bid rigging in the construction industry was severely criticized in the Structural Impediments Initiative (SII) talks between Japan and the United States. Recently, Japanese firms which won construction contracts at the U.S. naval base in Yokosuka, Kanagawa-ken, were caught in bid rigging and were required to pay Y5 billion in damages for this unfair business practice. Japanese bid rigging has become an obstacle to liberalizing Japan's construction market.

However, the Japanese construction industry views bid rigging as a necessary evil. At the same time, government offices overlook this practice in awarding public contracts. It would seem that Japanese society as a whole lacks any guilty feelings toward rampant bid rigging.

The Mito court even drew attention to the fact that the defendants committed their offense based on a customary business practice.

Both the government and the construction industry should make their utmost efforts to break away from this vicious business practice.

Bid-Rigging Common in Construction World

OW3012180889 Tokyo THE DAILY YOMIURI in English 29 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Newswatch" column article by Albert Novick: "The Rules of the 'Dango Game'"]

[Text] The Mito District Court handed down a landmark verdict on Dec. 18 when it found three executives of Tokyo and Ibaraki-ken construction companies guilty of collusion resulting in unfair profit-making and the setting of unfair prices. Bid-rigging by construction and civil engineering companies in violation of the Antimonopoly Law has been the subject of criticism since such cases began coming to light in the mid-1970s, but the difficulty of proving collusion has in the past impeded legal action against the practice, which is generally acknowledged to be very common.

The indictment against Kabuki Construction Co., Joso Development Co. and Daito Co. charged the firms with conducting a conference (called a "dango") in December 1979 over bids for a river dredging job that were to be submitted to the Ibaraki-ken government. The three companies are said to have formed a "backdoor joint venture," meaning that the client (Ibaraki-ken) entered into a contract with a single company, but that company had concluded a secret profit-sharing agreement with other parties.

According to the Mito District Court ruling, the companies had decided that Kabuki would win the contract with the lowest bid and that afterward the three companies would split the profits. Of the three parties, actual work was done only by Daito.

The decision also intimated that Ibaraki-ken had accepted a price for the work that was unfairly high. This suggests that the prefectural government had been a passive party to price fixing.

The law provides penalties of up to two years imprisonment or fines of up to Y1 million for collusion to fix prices. Each of the defendants was sentenced to eight months imprisonment, suspended for four years.

One source of exasperation by United States trade representatives who demand Japanese action against such

practices is the response that the Americans do not understand how Japan's construction industry works. Underlying this assertion is the belief that pre-bidding conferences between companies are not necessarily held for the purpose of price fixing. Contractors who argue the fundamental legitimacy of the custom of holding pre-bidding conferences regard the system as less a cartel than a way of ensuring that all companies get their share of the work.

The "conference system" is a typically Japanese means of maintaining harmony among its numerous civil engineering and construction companies, according to hierarchical relationships comprehended only by insiders. Japan has approximately 510,000 of these companies, more than 99 percent of which are classified as medium-to-small enterprises capitalized at less than Y100 million.

The conference system originated long before Japan achieved the status of a great economic power. In the past, intercooperation between companies was a kind of social security that ensured all a share in the profits and provided for the sharing of machinery and personnel when necessary. Outmoded as it may be, the system serves essentially the same purposes today.

Exposure of former Prime Minister Kakuei Tanaka's "money channels" in the 1970s greatly contributed to public understanding of bossism, pecking order and political involvement in the dividing up of public works contracts. Tanaka rose to power by cultivating personal connections among construction companies in his Niigate-ken constituency and channeling government money for local development projects to them. No mere rake-off schemes, Tanaka's development projects, which included the Joetsu Shinkansen and the Kan-etsu highway, demonstrably improved the quality of life in the snowbound district, whose history of bitter poverty stands as a fixed influence on the voting behavior of Niigata residents.

Demands by the U.S. government for tougher penalties for companies found to have engaged in collusion are among the issues on the agenda of the Japan-U.S. Structural Impedient Initiative talks. U.S. Trade Representative Carla Hills is also making demands on this subject in the interests of winning more entrees for U.S. firms into major construction projects in Japan.

The U.S. government is acting as still another source of outside pressure on the issue by demanding compensation for losses it claims to have suffered due to unfair pricing by 140 companies involved in construction work for the U.S. naval base at Yokosuka.

At present, Japan is spending about Y24 trillion on public works projects. It can be assumed that collusive practices are responsible for the squandering of some of this money, although no actual estimates have been offered. The issue of this presumed wasting of taxpayer's money has been raised by opposition politicians and critics, but the subject has not yet caught fire among the public at large.

Past assaults on the conference system, such as the establishment in Ibaraki-ken of a committee to oversee bidding on public works projects, have not proved effective. This is due partly to solidarity in the industry and partly to tacit cooperation by Construction Ministry officials.

Japanese consumers have long been accustomed to putting up with higher prices than could be expected to prevail if their system did not contain protection for numerous tiny businesses. Their tolerance is based on a tradition of "coexistence and coprosperity." The eventual weakening of this tradition, accompanied by a rise of consumerism, seems all but inevitable in the age of the borderless economy. For the time being, however, many, if not a majority of the Japanese are still influenced by time-honored concepts of where the best interests of Japan as a whole lie.

National Affairs

Kaifu Agrees To Lower House Election in Feb

OW3112222089 Tokyo ASAHI EVENING NEWS in English 30 Dec 89 p 1—FOR OFFICIAL USE ONLY

[Text] The government and the ruling Liberal-Democratic Party (LDP) on Thursday agreed on a plan to dissolve the Lower House on Jan. 24, two days after a regular session of the Diet re-opens following a month-long year-end and New Year's recess, political sources said.

The sources said a general election for the Lower House is accordingly expected to be held Feb. 18.

The agreement was reached at a meeting between Prime Minister Toshiki Kaifu and LDP Secretary-General Ichiro Ozawa Thursday afternoon to discuss the future political calendar.

They also set the resumption of the ordinary Diet session for Jan. 22 because Kaifu is scheduled to return from his 12-day visit to Europe on Jan. 18, the sources said.

The prime minister plans to visit Poland, Hungary, West Germany, France, Britain, Italy and the European Community (EC) headquarters in Brussels.

Kaifu will disband the Lower House after representatives of the LDP and the opposition Japan Socialist Party question the prime minister on his policy speech, to be delivered at the outset of the resumed regular Diet session.

Kaifu has given up his intention to win Diet approval of the 1989 supplementary budget before the dissolution of the house, the sources said.

Professor Urges 'Perestroyka' for Japan

OW2212123089 Tokyo THE JAPAN TIMES in English 20 Dec 89 p 19—FOR OFFICIAL USE ONLY

[Article by Yukio Suzuki, professor of economics at Yokohama National University: "'Perestroyka' for Japan?"]

[Text] There is nothing more frightening to a politician than failing to be elected. "A monkey is still a monkey even after it falls from a tree, but a politician becomes a mere jobless person after losing an election," the saying goes.

The Liberal-Democratic Party [LDP] is determined not to lose its majority in the Lower House in the next general election, most likely to be held late in February. The party lost its majority in the Upper House last July. It cannot afford to repeat that experience in the lower chamber, for doing so would spell the end of the LDP's long one-party rule.

Convinced that the Recruit affair and the enforcement of the controversial consumption tax were the main causes of its crushing defeat in the Upper House election, the LDP came up with a plan for revision of the consumption tax after a big debate within the party. The logicality of the tax system has been ignored. The party probably felt that it had to produce a revision plan from a sense of concern and fear concerning the general election.

The proposed revision will make the consumption tax even more complicated in its operation than it is at present. That's not all. It will not appreciably reduce the consumers' tax burden. In short, it is difficult to understand what the revision plan is all about. It only creates new problems in the overall tax system.

The fundamental idea of the consumption tax introduced eight months ago was to create a stable source of tax revenue for the rapidly aging society and to rectify a tax system that put too great an emphasis on direct taxes. Its implementation was coupled with a reduction of the income tax. The consumption tax was supposed to be fair, simple and neutral. A uniform 3 percent tax was imposed. There were no exemptions. The bookkeeping system was adopted. Therefore, it was simple and clear, convenient in both collection and payment. To be sure, there was initially some confusion for both business people and consumers. Buying new cash registers and changing the calculation system cost money. Consumers got fed up with the aluminum one-yen coins that were now necessary. Many people are still angry over the troublesome tax. But the Japanese are an adaptable people, and most became used to the consumption tax as the months passed.

To be sure, low-income people and the aged do not benefit from the income tax cuts. But these people can be helped to some degree by increased fiscal welfare spending. There are actually not so many people as the opposition parties claim who feel truly bothered by the consumption tax. Rather, the bookkeeping system—adopted, it was claimed, to make tax payment simpler—unlike the invoicing system for the European Community's value-added tax, leaves loopholes for tax dodging. It does not make tax collecting tight enough. There also are other aspects of the consumption tax that need to be corrected, such as the exemptions and low taxation that favor the smaller business operators too much. These are the defects that should be rectified in the revision plan. In fact, the 3 percent tax imposed on the consumer does not go entirely to the tax office. Much of it is pocketed by the business operators, not all of whom can be accused of cheating, for the tax collecting mechanism itself allows such practice.

The LDP left this and other aspects uncorrected in its revision plan. Party leaders claim that the revision emphasizes the interests of the consumer and the pensioner. True, all food items are to be exempted from the tax at the retail level, and the tax rate lowered to 1.5 percent from the present 3 percent at the production and wholesale levels. Tax exemptions are also proposed for childbirth and funeral costs as well as for school admission fees, textbooks and wheelchairs and other equipment for the physically disabled and facilities for the aged. Private housing rental will also be exempted from the consumption tax. The amount of exemption for public annuity programs in income and resident taxes will be increased. Under the proposed revision, corporate entertainment expenses will no longer be exempted from the consumption tax. The Liberal-Democratic Government had indeed favored the business operators. It decided to end this unfair partiality only after the surge of public opinion accusing it of ignoring consumers.

The revision, at least in form, does take the interests of consumers into account. But it is still far from being truly fair and just. Opinion within the LDP was split over the handling of food items between those calling for tax exemption at all levels and others proposing that the tax rate be lowered to 2 percent.

Farmers' groups opposed the first on the ground that the consumption tax on farming equipment could not be passed on, while Shin Kanemaru, former deputy prime minister who proposed a consumption tax reduction on the scale of 1 trillion, tried to kill the second as being too small. The final plan is a compromise between the two proposals. How helpful will it be to consumers? While the tax rate will be cut to 1.5 percent at the wholesale level, there will be no tax at all at the retail level. How would retailers try to reflect this in their prices? If the tax is to be made truly fair, transparent and simple, the 1.5 percent tax rate should be imposed at all levels. And if the tax exemption is the only way to satisfy consumers, why impose the tax at all?

So long as the bookkeeping system is in use, however, the possibility of business operators adding the tax to their prices will not disappear. In fact, retailers inevitably will do so. On the other hand, consumers will perhaps press

retailers to lower their prices by 3 percent once foods are exempted from the tax at the retail level.

Moreover, the business operators will have to replace their cash registers again. As a result, there is little possibility of consumers paying 1.5 percent less for their food purchases. Whether the retailers will add the tax to their prices will, of course, depend on the demand-supply situation concerning the commodity and service. In any event, the proposed changes will make the consumption tax and its application even more complicated than it is now and will have little tax-cut effect.

On the other hand, the opposition's call for abolition of the consumption tax lacks a vision for future tax reform. The opposition is guilty of giving little deep thought when it proposes the restoration of the commodity tax and use of the automatic tax increase as an alternative source of tax revenue.

If the LDP loses its majority in the general election, the opposition's call for abolition of the consumption tax will perhaps carry the day, making the tax system more confusing than now. If, on the other hand, the LDP retains its majority in the Lower House, the party's revision plan will pass that chamber. Preferably, the LDP will reexamine this plan thoroughly after the general election to make the changes truly fair and impartial.

The tax reform debate exposed the irresponsibility of the politicians of both the government and opposition parties, who merely tried to be clever without getting to the core of the problem.

"Perestroyka" is perhaps needed in Japan too.

LDP Gets Ready for Less Than Total Win

OW2612134989 Tokyo THE DAILY YOMIURI in English 25 Dec 89 p 1—FOR OFFICIAL USE ONLY

[Text] Liberal Democratic Party leaders have reached a consensus that winning a simple majority in the House of Representatives in the upcoming election will signify victory.

Former State Minister Toshio Komoto was the first to state that the party can call itself a winner if it takes 257 seats—the number needed for a majority in the 512-member body—but others soon followed suit.

Additionally, LDP leaders have begun to contemplate the once scarcely imaginable: a coalition government. The LDP has ruled Japan singly for more than three decades.

Former Prime Minister Noboru Takeshita recently suggested a partial coalition with the moderate Komeito and the Democratic Socialist Party, which—together with other opposition parties—outnumber the LDP in the House of Councillors.

Assuming an LDP victory, Toshiki Kaifu is widely expected to continue as LDP president and prime minister.

Meanwhile, LPD's most difficult preelection task is choosing candidates for its ticket. Most incumbents, as usual, will enjoy the automatic support of the LDP, leaving various intraparty factions to scrap over the leftover ticket spots for new candidates.

Factions led by former Prime Minister Yasuhiro Nakasone, former LDP Secetary General Shintaro Abe and former Finance Minister Kiichi Miyazawa are jockeying for those slots, hoping to expand their influence within the party by winning additional seats.

The ordinary Diet session convenes Monday but will immediately break for the New Year holidays. The Diet is expected to resume on Jan. 22.

Soon after, the Lower House will be dissolved either before Kaifu's Jan. 22 policy speech, shortly thereafter, or on Jan. 26 after party representatives question the prime minister about his speech.

On Feb. 3, the Cabinet is likely to announce a Feb. 18 voting day.

ASAHI Views Move for Reshuffling Parties

OW2312085089 Tokyo ASAHI EVENING NEWS in English 21 Dec 89 p 7—FOR OFFICIAL USE ONLY

["To My Mind" column article by Teiji Onodera: "The Ice Is Breaking; a Reshuffling of Parties in the Works?"]

[Text] Except under extraordinary circumstances, political change comes very slowly in Japan. As a result of the conservatives' almost uninterrupted rule since the end of World War II, the establishment is firmly entrenched, not allowing momentum for change to mount. Beneath the placid exterior, however, the ice seems to be finally breaking.

Former Deputy Prime Minister Shin Kanemaru put it clearly last Sunday. He predicted that a mood in favor of a realignment of parties, a shake-up involving the government and opposition parties, would mount after the coming Lower House election. Whatever is in the works, Kanemaru, an influential Liberal-Democratic Party [LDP] lawmaker, may well be involved himself. With the opposition weakened under the long conservative rule, the initiative for change that counts must come from the political mainstream.

Moreover, there are reports about plans to form a new party after the election. The reported moves clearly stem from a widespread recognition in political circles that the LDP's one-party rule is up against the wall. The collapse of Communist regimes in Eastern Europe and the persistent and worsening economic friction with the United States reinforce that perception.

Forces to hang on to the status quo are also at work. Although there is no question that the LDP will retain a majority in the coming election next February, simply because the opposition parties will not be able to find enough candidates to wrest control of the house, LDP Secretary-General Ichiro Ozawa has reportedly asked the business community for massive funds to make his party's victory an absolute certainty.

Apparently as part of the requested financial assistance, loans from major banks to the party, amounting to Y12 billion to Y13 billion, are said to have ben arranged. The huge war chest the LDP is building will put the cash-short opposition in an unfair disadvantage.

Kanemaru's prediction had been preceded by a series of notable moves. First, Koshiro Ishida, chairman of the Clean Government Party (Komeito), appeared to imply on Dec. 8 that the party was moving away from the No. 1 opposition Japan Socialist Party [JSP] closer to the LDP. He said that in the event that the LDP lost a majority in the Lower House, it should continue to hold the reins of government if it emerged the largest party.

This was followed by a proposal by former Prime Minister Noboru Takeshita that the LDP should form a "partial coalition" with the opposition after the election, meaning legislative cooperation on certain policies. It was generally speculated that Takeshita had Komeito in mind as the LDP's partner.

Komeito rejected the proposal, but considering the fact that Takeshita is a cautious man, his public proposal may suggest that some understanding has ben reached between the two parties.

Also encouraging was a proposal by former JSP Secretary-General Makoto Tanabe to change the name of the party, apparently to facilitate reunification with the Democratic Socialist Party [DSP] and the United Social Democratic Party (Shaminren), both formed by those who had bolted the No. 1 opposition party.

It is noteworthy that contrary to expectations, the proposal has not touched off a storm of controversy within the JSP.

Change has long been overdue. Under the LDP's long rule, Japan has become a nation of vested interests. Even the party itself may be called a vested interest now. The Diet seats held by LDP members represent vested interests for the constituents backing them, as shown by the fact that in many areas, the seats have come to be viewed as hereditary assets to be handed down from father to son or son-in-law.

The view may be ventured that trade talks between Japan and the United States do not make real progress because the LDP sits astride the vested interests.

The overwhelming victory the JSP scored in the Upper House election in July appeared to have opened the way for sorely needed change. The passage of opposition-proposed bills for repealing the consumption tax through the Upper House on Dec. 11 was an epochal development. But the public, always timid about radical change, seems to have second thoughts now.

Nevertheless, it is true that people in general are full of dissatisfaction with the LDP. The party's failures are graphically manifest in the rapidly widening income gap between the rich and the poor and in the sky-high land prices, which have made it impossible for salary earners to buy homes in and around Tokyo. The LDP is staying in power only because of misgivings about the opposition's competence in running the country.

Japanese do not act decisively until their backs are against the wall. There is a growing perception now that it is high time to act to change the status quo. However, because of their inability to find enough candidates and dissent among themselves, power will be elusive for the opposition parties. A radical reshuffling of parties, which is apparently being explored, will be a better way to bring about change.

LDP's Watanabe Censures Public Disorder in U.S.

OW 221203889 Tokyo ASAHI SHIMBUN in Japanese 19 Dec 89 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Text] Michio Watanabe, former chairman of the Liberal Democratic Party [LDP] Policy Research Council, speaking at gatherings of candidates expected to run in the forthcoming House of Representatives elections at Hitoyoshi and other places in Kumamoto Prefecture on 17 December, repeated his controversial remark about lures and scathingly criticized the public order situation in the United States. He spoke as he pleased, without reserve.

Watanabe said: "It is a lure to claim that the opposition can do everything without financial resources. They say that they will establish schools, raise wages, increase pensions, but they will not hike premiums. Things never go well like that. Voters who cast their ballots, lured by those words, are like fish decoyed by lures. The problem lies in their IQ's."

While stressing the merits of the LDP Government, he also said: "Japan is a country where people can sleep without fear. There are many drug problems, murder cases, and drug addicts in the United States, particularly in and around Los Angeles. They take dope there, and you never know when you will be shot at. In the first place, they are rendered insane by drugs. The United States is swarming with such people. It is really frightful. You can never see young lovers in parks in the United States, because girls will be snatched away. I won't say any more, because if I say there are many odd people over there, I shall be criticized again. But, it is really scary over there."

LDP's One-Party Rule at Stake in Election

OW3012134989 Tokyo THE DAILY YOMIURI in English 29 Dec 89 p 3—FOR OFFICIAL USE ONLY

["Political Beat" column article by Toshiyuki Takahashi: "LDP Power Struggle Looms"]

[Text] The future of the Liberal Democratic Party's one-party rule over Japan's politics is at stake in the next general election, which is expected to be called in February, some political pundits say.

They say the poll will see the voters choosing the nation's future political system.

At the moment, Yomiuri Shimbun surveys predict that the LDP can maintain its majority in the House of Representatives. But some LDP members think the party should count itself lucky if it succeeds in securing just enough seats to maintain a lower house majority. The present political situation does not warrant the LDP to indulge in any optimism.

Acting on individual predictions of the election result, the LDP power brokers have started backstage negotiations to facilitate the forging of a coalition government with the opposition after the general election.

The Diet will be convened for a special session on Feb. 26 or 27 if the LDP succeeds in maintaining its lower house majority in the general election. The Diet will reelect Toshiki Kaifu as prime minister and he will be empowered to form his second Cabinet. The second Kaifu administration is expected to become a more solid administration capable of working out long-term domestic and foreign policies.

Kaifu has to deliver his policy speech by Feb. 27, if the special Diet session is convened on Feb. 26. The following three days, from Feb. 28 to March 2, will be devoted to interpellations of Kaifu's policy speech by party representatives. The Diet is expected to start deliberations on the budget bills on March 5.

Heated bargaining between the ruling LDP and the opposition is expected before Diet passage of the 1989 supplementary budget and the fiscal 1990 government budget.

The special diet session is expected to last about 120 days, ending around June 25.

Even if the LDP manages to maintain its lower house majority in the next general election, the rosiness of an election victory is expected to run out by then.

LDP power brokers are expected to engage in high-geared campaigns for the party's top position after the Kaifu administration.

Former Prime Minister Noboru Takeshita, who is believed to hold an ace in deciding the future course of the political world, predicted that the post-Kaifu leadership struggle will become "a generation war" between "new leaders" and "neo-leaders."

Influential senior LDP politicians, once touted as "new leaders" to succeed Yasuhiro Nakasone and Takeshita, were forced to step back from the party's front-line politics due to their involvement in the Recruit influence-peddling scandal. But former LDP Secretary General Shintaro Abe, former Finance Minister Kiichi Miyazawa and former LDP Policy Council Chairman Michio Watanabe are trying to make a comeback.

Under the Kaifu administration, such younger "neo-leader" politicians as Finance Minister Ryutaro Hashimoto, LDP Secretary General Ichiro Ozawa and former Agriculture, Forestry and Fisheries Minister Tsutomu Hata have been steadily consolidating their political footholds.

Under such circumstances, a fierce clash between the new leaders and the neo-leaders will become unavoidable, political experts predict.

At the same time, new leaders and neo-leaders are also expected to forge alliances based on their own political scenarios.

The LDP's overall control over party members will be weakened further should the party just barely eke out a lower house majority. The political situation is expected to be thrown into turmoil, particularly if some LDP presidential hopefuls should forge alliances with the opposition parties, depending on the next election result.

Clashing Interests To Plague LDP in 90's

OW2812085789 Tokyo THE JAPAN ECONOMIC JOURNAL in English 30 Dec 89 pp 1, 3—FOR OFFICIAL USE ONLY

[By Konosuke Kuwabara, JAPAN ECONOMIC JOURNAL staff writer]

[Text] Japan's ruling Liberal Democratic Party [LDP] faces a deep dilemma as it looks ahead to a new decade.

It knows it must restructure and reform itself to address domestic and foreign complaints about its dubious ethics and ties to special interest groups.

It also knows that restructuring is a likely vote-loser, which could do more harm than good to the party's long dominance of Japanese politics.

The LDP's change-of-decade reassessment is just one aspect of fast-moving currents that are shaking up the nation's established political order.

This year, for the first time, the LDP lost its majority in the nation's Upper House. Now, with an election looming in February in the more influential Lower House, the LDP is trying to cast off its image as a party

beholden to three major groups of backers who have long been its financial power base—contractors, farmers, and small business.

In its place, the LDP wants to be perceived more as a party that supports Japanese long-neglected consumers. It also realizes it must try to internationalize itself through market opening and deregulation.

"The LDP's political method does not work any more because what Japan does at home affects foreign concerns, too," says University of Tokyo Professor Takashi Inoguchi.

Takeshi Sasaki, also a University of Tokyo professor, adds: "The next decade will be a transition period for the ruling party as it restructures itself from a catch-all party to a consumer-oriented one. However, if the reshuffle fails or is delayed, decisionmaking will become more difficult and the dilemma of choosing between consumers, other sectors, and foreign demands could worsen."

Political observers note that the LDP's three major backers face growing foreign pressure for market liberalization.

In turn, that is forcing Diet members to choose between conflicting interests of different groups of constituents. And predictably, many are unhappy.

"If the LDP takes tougher measures on farmers and is pressured by foreign demands for the opening of the rice market, we are sure to damage the party in the elections," says Fumiaki Aruga, general manager of policy planning at the Central Union of Agricultural Cooperatives (Zenchu).

Zenchu has 8.2 million members, most of Japan's farmers, and tremendous clout because of the nation's political apportionment rules that give rural areas more voting power per capita than cities.

Retail Interests

LDP Diet members who have close relationships with 1.6 million small retail shop owners and 430,000 wholesalers are also in a quandary.

They must balance their constituents' interests with U.S. demands for deregulation of the Large-scale Retail Store Law and rationalization of the nation's distribution system.

Those two issues are part of the ongoing U.S.-Japan Structural Impediments Initiative talks.

The Large-scale Retail Store Law essentially prevents large stores from opening without the permission of other small shopkeepers in the same neighborhood.

"We place equal weight on domestic industry protection and foreign demands for deregulation," says Kabun Muto, who is a leader of the LDP's commerce and industry committee.

Restrictive Store Law

Independent retailers' opposition to changes in the large store law has already led to the postponement from September until next year of a provision that would have eased its enforcement.

"We are basically for the ruling party but unless the LDP changes its present stance, the number of votes for the party will decline to the extent that the opposition parties will win," says Sadato Namiki, chairman of the Small Shop's Association of Japan.

Some contractors, who are heavy LDP contributors, also voice similar sentiments. In 1988, the Real Estate Companies' Association offered Y70 million to the LDP. The party also received at least Y400 million from Japan's nine major contractors.

For the LDP, a lot depends on whether it can secure the support of consumers.

"Many foreign demands are the same as ours," notes Naokazu Takeuchi, president of the Consumers' Union of Japan. "Our demands in 1990s will center on stricter enforcement of the Antimonopoly Law and reforms of the sole import agency system and multilayered distribution channels."

To garner consumer votes, an LDP committee recently proposed that import-promoting tax measures be introduced.

They would include a deduction of corporate taxes equal to a percentage of the increase in imports and the construction of an import-promotion center.

"Even if ministries oppose such measures, the LDP would like them to materialize," says Toshio Yamaguchi, a senior LDP official in the Lower House who heads the committee.

The LDP's dilemmas stem in part from complacency, an outgrowth of the party's rule since 1955 of Japanese politics.

By maintaining close ties to bureaucrats and by favoring wealthy special interest groups, the LDP has rarely faced serious political challenge.

That ended this year after the party rammed through an unpopular consumption tax on goods and services and after top LDP politicians were tied to the Recruit Cosmos stock-buying scandal.

Today, a new generation of younger political leaders is emerging, led by such LDP membes in their 50s as Finance Minister Ryutaro Hashimoto, former Agriculture, Forestry and Fisheries Minister Tsutomu Hata, former Science and Technology Agency Director General Yohei Kono and former Defense Agency Director General Koichi Kato.

Indeed, although a large number of new Diet members are the children or relatives of former politicians, there's

a wider recognition that the "old days" are finally over and that an age of multiparty politics may be beginning.

"How to solve the dilemma (between foreign demands and domestic interests) is one of our important problems over the next decade," says Kanezo Muraoka, a senior LDP official who has close ties to the construction industry.

Monetary Policy Decisions Catch LDP's Eye

OW3012091889 Tokyo THE JAPAN TIMES in English 28 Dec 89 p 6—FOR OFFICIAL USE ONLY

[By unidentified staff writer]

[Text] The Government and the Liberal-Democratic Party (LDP) made two economic policy decisions last week, both of which were motivated by the party's desire to hold the line in general elections widely expected to be called in February.

First, the Government for a time blocked a hike in the official discount rate planned by the Bank of Japan as a preventive measure against inflation. The second action was a compromise settlement to taxes on residual farmland in urban areas.

At his first news conference Dec. 18 after assuming the top post at the Bank of Japan, Governor Yasushi Mieno stated his resolve to "maintain the bank's role as the watchdog of prices." At the same time, bank sources suggested that another increase in the official discount rate would be announced soon, the third such step this year. When Finance Minister Ryutaro Hashimoto expressed acute displeasure over media predictions of an impending rate increase, however, the central bank was forced to put the planned action on hold.

The Finance Ministry and the central bank spent the following week on coordinating their positions before the bank finally announced the latest rate increase of 0.5 points.

According to central bank sources, the main reason the Bank of Japan moved to raise the rate during this busy period of changeover in leadership is that the upcoming election period will make it difficult to enforce tighter monetary policies.

On top of this, there was speculation that Western European countries—including West Germany—would simultaneously raise their bank rates. The Bank of Japan's action would cushion the ensuing effects on foreign exchange rates and curb inflation, bank sources said.

But when the bank's intentions surfaced, Hikaru Matsunaga, the minister of international trade and industry, declared himself against the rate hike, stating that "it will have detrimental effects on financing for small- and medium-sized businesses." Matsunaga's position came as no surprise.

Since the late Bank of Japan Governor Haruo Maekwa took decisive action to hike the bank rate in February 1980—even while the Diet was heatedly debating national budget bill—the bank has considered itself immune to political influence. But in today's political environment, where such important matters as the budget bill, the consumption tax, and the coming general elections converge to generate intense pressures on the LDP, the central bank inevitably faces serious constraints in managing monetary policy independently. It remains to be seen how the new governor, who was criticized for lacking political sense, will recoup his loss.

The tax reform plan drawn up by the LDP's Tax System Research Commission is also motivated by the coming general elections. Prime Minister Toshiki Kaifu hopes to strengthen his real intraparty positive by boldly addressing public complaints over taxes. His promised "drastic review of the consumption tax," however, did not come close to quelling public dissatisfaction. Now, Kaifu reportedly hopes to cover for the unsatisfying consumption tax review by adding attractive reforms to the 1990 tax bill.

The touchy problem of taxing urban farmland was settled by changing the expression "tax rate equal to that on residential land" into "measures to make efficient use of underused lands and thus increase supply in residential land" and by adding a roundabout suggestion that tax rates on farmland in urban areas should be raised to the level of the tax rates on residential land.

LDP Warns Business of Consequences of JSP Gains

OW2212122289 Tokyo THE JAPAN TIMES in English 21 Dec 89 p 7—FOR OFFICIAL USE ONLY

[Text] Since last fall, LDP [Liberal Democratic Party] Secretary General Ichiro Ozawa has been telling business leaders that Japan's free market system will be endangered if the socialists win further victories in the Diet. His gloomy threats now seem to have had their effect.

Informed sources say more than Y20 billion in political contributions has poured into Liberal-Democratic Party coffers from the business community to support the LDP in the coming general elections for the House of Representatives, widely expected to take place in February.

On Dec. 14, LDP headquarters gave its Diet members their usual year-end "rice cake fund," a total handout of Y1.33 billion. At the faction level, a year-end allowance of about Y10 million has been distributed to each junior LDP member in the lower house. These payments have reportedly brought relief to distressed party circles, which had pleaded that each member would need an extra Y30 million because the elections were being postponed until next year.

The LDP completely exhausted its compaign fund of nearly Y15 billion in last July's House of Councillors elections, in which the party suffered disastrous losses.

The initial Y5 billion was the party's usual price for winning in the upper house elections, but as the party ran into tough contests—even in one-member constituencies where the party had considered its candidates unbeatable—it had to pour in three times the usual amount of funding.

Ozawa, who assumed the post of party general secretary at the start of the Kaifu administration, had made it his goal "to help the LDP win the next elections, and thus rebuild confidence after the party's bitter defeat in the upper house." To achieve this goal, Ozawa is concentrating his energies on fund raising.

Since early last fall, Ozawa, working with LDP Policy Affairs Research Council Chairman Hiroshi Mitsuzuka, has discovered that there is disagreement within the party about how to handle a possible change in the LDP's majority status. According to Ozawa: "Some people within our party feel that the LDP should form a coalition government with opposition parties if we lose in the upcoming general elections. We don't agree if we lose, we'll turn the government over to the opposition.

This statement was interpreted as a warning to the business community that an LDP loss could cause havoc in the government, severely damaging the economy.

Some notable members of the business community became disenchanted with the LDP during the Recruit scandal; many even approached opposition parties. Takashi Ishihara, chairman of the Japan Committee for Economic Development, asked for the resignation of Prime Minister Noboru Takeshita at the same time, other committee leaders held discussions with representatives of the four opposition parties.

The Kansai Committee for Economic Development went even further, holding discussions with the Socialist Party soon after the House of Councillors elections.

This is when Ozawa, in an attempt to woo back the disaffected business community, began his furious assertions that the free market system is in danger.

Ozawa has reportedly asked the business community for special contributions this year, outside the framework of regular political contributions. He has even set specific goals for each industry: Y1 billion from the banking and securities industry, Y500 million from the steel industry, and similar sums for the automobile, electrical, trade, construction, and real estate industries.

One source in banking circles said that since laws restricting political funds limit individual business contributions to a maximum of Y100 million a year, banks will have to add the new amount to their regular contributions and pay the total over a period of a few years. Meanwhile, the Japan Federation of Bankers Associations has provided temporary relief through Y10 to Y15 billion in emergency loans.

Although the banks claim that these adhere strictly to standard commercial practices, they are unusual in that they are the first such loans in 10 years. A top banking executive emphasized that since banks support the free market system, it is only natural that they back the party which promotes that system. This confirms that these bank loans are simply another way for the business community to prop up the LDP.

The reversal in the auto industry's attitude is especially noteworthy. The industry was sharply criticized by the LDP for not cooperating in the House of Councillors elections—even though the industry was the biggest beneficiary when the LDP scrapped the commodity tax to introduce the consumption tax.

But now things have changed. One representative from Kanagawa Prefecture recently reported that an executive from an auto factory came to his office to offer his help in any was possible. Indeed, it looks as though business are coming out in an all-out effort to support the LDP, not only through political contributions, but also in the form of company support.

At any rate, the LDP's outlook is brighter these days. The party's accounting director, Fumitake Kishida, maintains that the LDP can't afford to lose in the lower house elections, but that since the business community has promised to cooperate, the party will soon reach its funding targets.

Some people are defending the LDP's activities. The secretary general of the Federation of Economic Organizations, Masaya Miyoshi, argues that political contributions are insurance premiums that defend the free market system. Yet many people in the Japan Committee for Economic Development remain disgusted with the LDP's demanding attitude, saying that the party is conceited if it thinks that it alone can sustain the present system.

Perhaps the LDP really is conceited. Immediately after the party's disastrous defeat in the upper house elections, the Tokyo Stock Exchange abandoned its bearishness to record a significant rise. How would the LDP explain that?

* LDP Urged To Take Measures To Regain Power

902B0018 Kyoto VOICE in Japanese
Oct 89 pp 94-113—FOR OFFICIAL USE ONLY

[Discussion by Shoichi Watanabe, Sophia U. professor; Taichi Sakaiya, author; Taro Yayama, political commentator; and Tsuneo Iida, International Japan Cultural Research Center Professor with Takeshi Inakaki, moderator]

[Excerpts] **Consumers Left Out of Debate Over Consumption Tax [Keynote Address by Taichi Sakaiya]**

It is generally said that the cause of the LDP's [Liberal Democratic Party] crushing defeat in the upper house elections was the threesome of the consumption tax, agricultural policy, and the Recruit incident. But has the

people's attitude fundamentally changed since the simultaneous upper and lower house elections 3 years ago, when the LDP won a landslide victory? It has not; the attitude of the people had already changed by then. So it should have been possible to predict the results we see now from the LDP's way of doing things after that election.

An attitude that favored suppliers has held uncontested sway in Japan from the Jeiji era to the postwar period of rapid economic growth. Thanks to such an atittude, the economy has prospered and stabilized and we have become affluent; over the last 2 to 3 years in particular, the Japanese as suppliers have become happier than anyone else. As a result, the idea of trying to rely on a supplier oriented political agenda has weakened and given way to rising expectations, a consumer oriented political agenda. For 3 years, or more accurately since the beginning of the 1980's, the people have been seeking a political agenda rooted in the needs of the ordinary consumer and taxpayer.

Three years ago, however, the Japan Socialist Party (JSP) was seen as the spokesman of the unions, the producers and the suppliers—in short, those who receive money. It was the LDP that was thought of as the representative of the money-paying consumers. Those positions have now been reversed. The consumption tax as well, judging from the way in which it was drafted, made the LDP look first and foremost like the representative of the manufacturing and distribution industries. By contrast, the JSP was thought of as the representative of the consumers because it fielded ordinary grandmotherly types and housewives as candidates. I am afraid that this is the biggest cause of the LDP's crushing defeat.

When the LDP was drafting the consumption tax, it first paid attention to the opinions of the Ministry of Finance. The Ministry of Finance bureaucracy, exactly as is still the practice, then asked the other ministries for their opinions. In the present government, the major premise is that bills which do not get out of the conference of vice ministers of each ministry should not be brought before the cabinet. In order to get a bill before the conference of vice ministers, it has to clear the chief cabinet secretary's conference, and so on, moving the level at which the bill must be passed ever lower in the ministries.

The individual ministries in turn ask the opinions of the industries over which they have jurisdiction. The archetype of this process was the Nakasone cabinet's sales tax bill. To get through the ministries, which is to say to get through the industries over which the ministries have jurisdiction, agricultural products were exempted, along with medicine and education, in an attempt to get the consent of the respective ministries; the upshot was that the distribution industry was adamantly opposed to the tax, which it called too complicated, and the bill was defeated.

So in drafting the consumption tax bill, the Takeshita cabinet paid greatest attention to the opinions of the distribution industry and compromised with it by exempting businesses with annual sales of less than 30 million yen and allowing businesses with sales up to 500 million yen to use a simplified schedule. At the same time, the Takeshita cabinet gutted the bill by lowering the tax rate from an initial 5 percent to 3 percent, though allowing no exemptions.

So in the end the consumers, over whom no ministry exercises direct jurisdiction, were left out. The opinions of consumers were virtually unrepresented. The only ones who listened to these opinions were housewives' associations and regional women's associations—associations which are widely considered to be the representatives of consumer groups and consumer movements. These people are professionals, so there is a big gap between the way they feel and how the ordinary consumer feels. As a result, the new tax system became bogged down in annoying and heavily resented ways, like using 1-yen coins.

For these reasons, the LDP looked very much like the spokesman of industry as far as the ordinary consumer was concerned, and the Recruit incident strongly reinforced the impression that LDP politics is a closed world. On top of that, the failure of a political management style built on highly secretive Diet administration led to the sad plight of the opposition parties' boycotting of the conference and the enactment of a consumption tax bill that was itself insufficiently examined. Thanks to that action the LDP was thought of as the party of industry and suppliers.

"Zoku Diet Members" Rather Than Factions Remain Source of LDP's Troubles

In the past, when most Japanese would have preferred to be in the enviable position of a supplier, the spokesman of the suppliers were elected to the Diet. Giving subsidies to agriculture, for example, collected the farm vote. Building roads could obtain the construction industry's vote. Sticking firmly to all manner of industrial policies designed to promote the growth of industry would also collect the votes of salaried employees. So it was natural that the LDP, which is an alliance of zoku [a group of Diet members who exercise policymaking expertise in a particular field] Diet members who represent solely the interests of industry, usually won lopsided electoral victories. But now that structure is bucking unfavorable trends.

Although the LDP cannot be resuscitated without changing this very structure, the problem is deeply rooted. That is because the Japanese Government is constructed so that it is always on the side of the suppliers. Since its inception as a spur to industry in the Meiji Restoration, the Japanese bureaucratic structure has been completely splintered, with each ministry having jurisdiction over its own group of suppliers. For this reason the consumers' views are nowhere represented.

The Ministry of International Trade and Industry (MITI) is the spokesman for industry; the Ministry of Agriculture, Forestry and Fisheries is the protector of the farmers; the Ministry of Education is the ally of the schools and the administrators, and the enemy of the students. The Ministry of Labor feels that holding down unemployment is its first duty, so it accepts overemployment as inevitable and has no qualms about rising prices brought about by higher labor costs stemming from such overemployment; it is not the least interested in the position of workers as consumers, which is one of their, the workers', roles.

During the LDP's long tenure, it has wedded itself to this bureaucratic system and created a class of zoku Diet members; it is connected to all the suppliers through the bureaucratic structure. The party's commerce and industry committee members are connected to industry and its educational zoku is closely connected to school officials and their huge interest groups. Nor is that all: industry must rely on the jurisdictional ministries and agencies for its information and even its raw materials, so the bureaucracy has the right to take the lead even in the areas of day-to-day administration and the drafting of bills. Given these circumstances, it is impossible to break free from the mentality of the suppliers.

Within the LDP it is fashionable right now to call for the dissolution of the factions. Those with an interest in factions and such are mostly on the order of professional politicos and political commentators; the people have no interest in the factions. The root of the problem is the existence of the zoku Diet members. Such matters as dissolving the factions may be problems when authority and funds are shared within the village society of Nagatacho [Japan's capitol hill], but it is a mistaken prescription for political ills when speaking to the ordinary citizen.

Whether or not the LDP can recover comes down to whether or not it can avoid being stampeded by the zoku Diet members, the splintered bureaucracy and a political system that accords priority to suppliers. The concepts that have prevailed for a hundred years since the Meiji Restoration—namely development, expansion and growth—have already been fulfilled and become reality, and so have lost their allure. The new values that people seek now are those of the good life and an interesting society.

A supplier oriented society, however, is trying to restrict such freedom of choice as much as possible by pushing ahead with standardized mass production and opting for efficiency over fun and overall quantity over a multiplicity of choice. This stance is the cause of the dead-end we have reached in agriculture, manufacturing, education, medicine and everything else. Internationally, it has also given rise to excessive trade surpluses and brought about friction [with the country's trading partners].

In order to solve this problem, the whole country—not just the LDP—will have to change its concept of society, including the structure of the bureaucracy. Whether or not it can do so will determine the future of Japan.

Part 1

Bureaucracy Pleased at Prospect of Coalition Government by Opposition Parties; "External Tax" System Convenient for Government

[Inakaki] What feelings did Sakaiya's keynote address promote, and what are your analyses of the causes of the LDP's crushing defeat?

Yayama: The purely logical aspect of the Ministry of Finance's position on the consumption tax was correct, but it is a fact that this position did not jibe with the mentality of the people. There is a cultural background to this. In Europe the system of tipping has taken root everywhere, so there is no resistance to paying a little more than the marked price. This custom does not exist in Japan, however, where the marked price includes everything, and I think the government officials overlooked the instinctive resistance people feel to, say, paying an extra 3 yen when they buy a 100-yen lighter.

Iida: No one thought consumers would be this angry. Also, that votes against the LDP went to the JSP suggests that the JSP is no longer the dogmatically socialist political party it once was. That being the case, people felt safe about voting socialist. If that is the case, then everyone took them lightly so long as neither stocks nor the yen fell.

Watanabe: The delusion or illusion of postwar Japan is a consciousness of equality. Both the nobility and the big landlords have disappeared, and the difference in pay between a company president and an ordinary employee is smaller by a factor of 10 than in foreign countries. In the last 2 to 3 years, however, skyrocketing land prices have opened a big gap between those who own land and those who do not. Five years ago, there wasn't much difference between taking out a 20 million yen loan and buying a condominium or continuing to live in company housing. But now, the man with the condominium has suddenly become worth nearly 100 million yen and the other has got nothing but the rent. The Recruit scandal occurred at a time when those who had lost the chance to buy a home were feeling a pent-up frustration; their anger at having the politicians tease small change out of them through the consumption tax while the politicians themselves were raking in tens of millions of yen—untaxed at that—exploded.

Sakaiya: I think the system of excluding the tax from the list price is mistaken in terms of the logic of tax systems. That is because only the logic of those imposing the tax was considered. De Gaulle also did the same thing and blundered badly, bringing about a constitutional revision and a halt to parliamentary proceedings. In Korea, too, it was an indirect cause of the Kwangju incident. Nevertheless, the bureaucrats want this "external tax"

because it is the most convenient way for the government to collect taxes. [passage omitted]

[Inakaki] The essential function of politics is to measure this kind of bureaucratic self-righteousness against the mentality of the common people, correct it, and formulate it in law.

Sakaiya: In fact, the LDP resisted rather strongly, but bureaucrats from the Ministry of Finance twisted their arms, insisting that if the tax was not in the form of an external tax it would be impossible to implement, and the LDP easily went along with that.

Furthermore, the Ministry of Finance bureaucrats made the mistake of thinking that the people opposed the consumption tax simply on the grounds of immediate expediency, without thinking about the future. But the Japanese are a very patriotic people, blessed with foresight and concerned about the future of Japan. The common people are thinking more about the future than the government officials are. [passage omitted]

Watanabe: The reason the Japanese bureaucracy is so strong is because we imitated the Prussian bureaucracy. So in the prewar era the Diet was nominally the legislative branch of government, although it had no power to legislate. That power belonged solely to the cabinet, which was not composed of members of parliament, so in the end the bureaucracy was actually making the laws. After the war the Diet members, too, became able to propose a great many pieces of draft legislation, but only Kakuei Tanaka actually did so. Once Tanaka was buried by the Lockheed incident, such law-making Diet members completely disappeared. [passage omitted]

[Inakaki] I think that true activation and structural reform of Japan's economy and business firms will not proceed so long as a mountain of foolish protectionist measures and regulations still remain in agriculture and the distribution process is not changed. For that to happen, what kind of new political system will the LDP have to fashion?

Yayama: I think the LDP was aiming at creating such a new political system during the years of the Nakasone administration. Toward that end they did such things as create ad hoc policy, administrative reform and education commissions, and proceeded with a policy of encouraging private initiative; to some extent they were successful. The archetype of this policy was the privatization of the national railways system, something that certainly could not have been done with policies in use until that time.

Watanabe: That, too, was possible because Kakuei Tanaka supported the Nakasone administration.

Yayama: There are two types of commissions, one of which is set up by individual ministries; but this is nothing more than a screen for the bureaucracy's control. I was invited to sit on a commission of one ministry and was astounded to find that bills that were not even discussed were introduced as drafts. I could not accept responsibility for the commission's actions and I resigned.

Nakasone noticed this problem and created commissions attached directly to the prime minister's office that overrode the jurisdictions of the individual ministries, in an attempt to rectify the evils of a splintered administration. With the Recruit scandal, Nakasone is now reviled as an evil figure and his policy of private initiative has been repudiated, but I think this policy was politically very astute.

In other words, whereas before only officials of the individual ministries formulated policy, with the creation of commissions attached directly to the prime minister's office, private leaders from a variety of fields came and discussed policy. They set the stage and beat the drum, and in so doing they attracted the interest of the people; the masses came to have an interest in policy formulation. What other unusual methods they used I do not now recall.

Still, of all the commissions, only the ad hoc committee on education had a tendency to be led around by the nose by the Ministry of Education.

Watanabe: I think Kaiyama's opinion is correct, but Chief Cabinet Secretary Fujinami and Ezoe killed the spirit of the ad hoc commission on education. Despite having at first aimed at a more basic reformation of education, it could come up with no greater suggestions for reform than that. Even the Ministry of Education could have come up with something like that.

Yayama: Yes, yes—even a commission on middle school education could have come up with something like that. Despite Nakasone's desire to create an ad hoc commission, they compromised it by leaving the selection of commission members up to the Ministry of Education. That was the cause of its failure.

[Inakaki] What should the politicians do to establish leadership, so that they do not play into the hands of the bureaucracy?

Watanabe: The first thing would be the emergence of a capable politician like Kakuei Tanaka. But the bureaucracy is probably working to prevent the emergence of such a politician.

Sakaiya: The parliamentary system also has big problems. A system in which Diet members simply ask questions and the government simply responds is not a bit different from Imperial Diet of the old days. That is, although the Diet is the legislature, the Diet members simply state their opinions of the government bills that the officials have drafted. There's no tradition of Diet members themselves drafting bills that other Diet members then question.

In both the United States and England, parliament creates a number of committees unconnected with the ministries and agencies. Instead of committees created

in accordance with divisions of power between ministries, a single committee debates issues that extend across separate ministries. It is difficult to break the bureaucracy's power as long as that kind of system is not in place.

Prospect of JSP Administration Comfortable for "Officials"

[Inakaki] Assuming the LDP fails to win a majority in the lower house elections and the opposition parties—mainly the JSP—form a government, would it not be the case that the bureaucracy's control would be strengthened because the opposition, without experience in forming policy and lacking both the staff and the brain-trust to draft legislation, would become more and more dependent on the bureaucracy?

Watanabe: The thing called socialism is essentially a bureaucratic system, so the JSP would be better advised to change its name to "the bureaucracy party." For the officials of the bureaucracy, too, a JSP administration would likely be more comfortable than the present method of treating them as public servants.

Yayama: If one talks to officials of the Ministry of Agriculture, Forestry and Fisheries, one finds that they say a number of things that would make one think they are ultimately aiming at socialism. The nature of the bureaucracy leads it to a fondness for a socialist system.

Yakaiya: The bureaucracy would be delighted if a coalition government of the opposition parties were formed. The bureaucracy gave a small shout of joy when they saw the results of the upper house elections. The whole atmosphere within Kasumigaseki [Foreign Ministry office] suddenly changed after the Recruit incident erupted. The tide turned against the policy of private initiative, and bureaucrats everywhere became imbued with the idea that their turn was coming, that without their firm control Japan would be in danger. A sign of this was that production of draft bills for new bureaucratic controls went into high gear at the ministries and agencies.

If, for example, a JSP-led government comes to pass, and that administration, true to its word, ends construction of new atomic power plants and toughens safety standards at existing plants which then operate at reduced capacity, there will not be enough power to handle the peak summer demand. The JSP says the matter can be handled by rationing power, but doing so will give the bureaucracy the power to decide which places will be supplied with reduced power. To business firms the question of whether or not power will be shut off during the summer is related to how they will manage their operations, and the firms will become unable to resist the bureaucracy in other matters beyond this one.

Again, with the numbered tax return system being proposed mainly by the JSP, as an attempt at tax reform in connection with the abolition of the consumption tax, no one in the bureaucracy is thinking of using such a system solely to prevent cheating. If the people can be stamped with numbers on their backs like this, then there is a long list of other systems that can be instituted, and still others after that.

So if the JSP gains control of the government, it will take about 2 years for the bureaucracy to become very strong and extend itself into every field, and it will not be readily rolled back. In that sense, a socialist government has the potential to put the bureaucratic structure on a solid, long-term footing. If so, then I think that even if we do not lose all our liberties, there is a danger of limited damage to some of them.

Part II

Exploding Wrath of Women and the Countryside; LDP, "Representing Men," Hated Irrationally [Inakaki] The LDP's base of support in the past has been farmers and small- and medium-sized business establishments like those of small shopkeepers. The LDP gathered their support by measures tailored to fit their particular interests, such as subsidy programs and the institutionalization of low-interest loans. But the overwhelming majority of the voters—75 percent—are members of the new middle class, the mass of salaried employees and their families.

The LDP's most recent policy has been fair taxation—by linking the consumption tax with a cut in income taxes, for example, and collecting taxes from groups that hitherto did not pay their fair share. If prices fall due to a reevaluation of the laws governing large retail stores, for example, which in turn lead to the liberalization of the distribution process, and if prices for agricultural products, which currently sell for more than twice the world price, fall due to agricultural import liberalization, the ones who will profit most will be the families of salaried employees.

Not only did the LDP fail to collect the votes of the new middle class masses in the upper house elections, but the housewives turned to support the JSP in what can be called the revolt of the "grandmotherly" legions. I would think that the LDP's most urgent problem is how to find a way to strengthen its base of support among the mass of the new middle classes.

Sakaiya: As Japan became an advanced industrialized nation, most Japanese became salaried employees. But for a long time now, the salaried employee worried more about his company than his own interests. That is why, when the yen rapidly appreciated in value, many more people were gravely concerned about the welfare of their companies than were happy about the drop in prices attendant upon cheaper imports. As long as this situation continued, and provided the politicians favored the suppliers, the salaried employees also realized that their companies stood to profit. Women, too, accepted this way of thinking.

Over the last 2 to 3 years, however, companies have found themselves in happy circumstances: There is no

longer any danger of bankruptcy and profits are good; their only worry has been a lack of personnel. The salaried employees, too, have come to expect more attention to be paid to their families than their companies. The LDP failed to capitalize on that change of attitude.

So in order for the LDP to win in the next elections to the lower house, it must shout at the top of its voice that it is the JSP that is the spokesman of the suppliers—that the JSP is the representative of the unions and is therefore on the side of the producers. In fact, I do not think that element can be removed from the JSP. No matter how many housewives they put up as candidates, the party's essential nature does not change.

Iida: The apparent reason for the revolt of the "grandmothers" is opposition to the consumption tax, but I think the deeper cause is a dislike of men. There is a strong, irrational hatred of a party like the LDP, representative as it is of men.

Watanabe: Prime Minister Uno was the symbol of the kind of man who makes women angry.

Iida: I am not a feminist, but I think it is clear that men have reaped benefits over a long period of time. Even when they said they came home late because they had a lot of work to do, in fact they were at the bar drinking. Wives cannot go out drinking like that; then they were hit with paying out small change for the consumption tax. Their grudges exploded. Making fun of the "grandmotherly" types could backfire on the LDP, and it will have to think seriously about how it should treat women.

Watanabe: If Shintaro Ishihara had become prime minister instead of Uno at the time Takeshita resigned, the election results would probably have been very different. Image is also important in dealing with women.

LDP, Too, Needs Some Blind Courage

Sakaiya: Another point that Watanabe mentioned just now is the growing differences in wealth between people. This phenomenon is especially noticeable when comparing Tokyo with the countryside. In the country, even the richest man might only be worth several hundred million yen at most; in Tokyo, that same man would be no more than the owner of a small home. When measured against the less-than-richest classes in the countryside, a much larger gap between them and the people of Tokyo is apparent.

Even so, all the political parties are moved by public opinion in Tokyo, so they have ignored the gap between Tokyo and the countryside and initiated policies designed to aid the low-income residents of Tokyo—by building inexpensive homes on the waterfront, for example. The people living in these areas gouged out for development exploded in anger. So the LDP blundered not so much in Tokyo as in the countryside; it was destroyed in the one-man districts.

The LDP has to grasp more clearly the reasons for its defeat. If it does not, it will err in its remedies and the illness will become more and more serious.

Watanabe: The feeling of a difference between Tokyo and the countryside is vividly understood whenever one goes into the country. It is a perception that did not exist 5 years ago. If the LDP does not reflect the voice of the countryside more fully, it—the LDP—will not recover. With the last selection of party president as well, the LDP tried to limit elective power to party Diet members; they ran into furious opposition from the regional representatives. As a result, they let some of these representatives participate in the election. Having done that, however, they should have waited a little longer and let all of them participate in the election. Party morale will suffer unless they do this.

Sakaiya: On this point, too, they caved in to bureaucratic arm-twisting. There were some within the party who called for the election of party president to be conducted by all members of the party, but they acquiesced in the argument that there would not be enough time to do so before the Diet convened—even though it would have been all right to have Uno take care of the opening ceremonies.

Watanabe: I think that's a danger to which professionals are susceptible. Worrying about every little thing, like the scheduling of the Diet, is a trap that professional politicians easily fall into. Rather, a layman's mentality, which holds that the party president should be selected through election by all party members, is correct in this case. Doi owes her success to naivete. She became party chairwoman at a time when there were no capable men in the JSP and the party was facing extinction. She kept saying that "things have to get done," but she herself knew nothing. In fact, it appears that she did not even know what should be done; but, precisely because she acted as if she could not have been expected to know anything anyway, she continued on without becoming a neurotic.

This "blind courage" is also what the LDP needs. Rather than formulating policies in strange ways and showing off one's overly professional expertise like the zoku Diet members, the LDP should move policies forward with a modicum of political common sense alone.

Yayama: In the JSP as well, Policy Board Chairman Shigeru Ito is awkwardly intellectual, and finds himself anguishing over tax reforms designed to substitute for revenue lost following the abolition of the consumption tax.

Watanabe: That is why the "grandmotherly" types are so strong. People like Doi take things easily and do not anguish over matters.

"Internal Tax" Method: Politically Shrewd

For better or for worse, it is a fact that Japan is now becoming an information-oriented, mass society, in

which the influence of the mass media has attained extreme proportions. If so, then I think the LDP also has to introduce political styles and methods which are in step with the changing times, such as moving away from the secretive political maneuvering of the political operatives found chiefly in the Diet Policy Committee and toward more open methods of formulating policies that the masses can easily understand and that employ convincing public relations programs. They cannot be passive about this; they need some standing [judo] throws, standing attacks that get attention.

Sakaiya: Right now, professional operatives from all types of organizations are working under the auspices of a commercial society. Resort development is part of this, and it is only natural that they do not appear in an attractive light. Even public relations work is carried out according to that logic. So the Ministry of Finance invested a lot of money in promoting the consumption tax, too; the more they promoted it, however, the more it was castigated by the public.

Public relations according to the way a commercial society looks at it suggests that, as brand name recognition increases, so too does market share. Demand exists from the beginning for articles such as automobiles and detergent, so if one promotes the product to the hilt and heightens its name recognition, sales will increase. The content of the product is not really an issue. When it comes to servicing, however, which is not a commercial product, these methods do not work. When the economy grows the demand for steel increases naturally, and all the steelmakers profit. In the case of hotels, however, guests will not come to a poorly located place even if the economy is doing well. It is the same for expositions; people do not come if they are not publicized.

Publicity for the consumption tax, however, stated only two points: That the tax was a source of the revenue needed to meet the needs of an aging population, and that this type of tax was in widespread use worldwide. These statements were nothing more than a reiteration of the public relations campaign launched on behalf of the sales tax. They did not learn from the failure of the sales tax for just that reason.

The people have heard about the coming of the aging society over and over again. Nor do such things as international comparisons appeal to the Japanese people. If that sort of thing did appeal to them, then defense expenditures in particular would be increasing.

Escaping the thinking of a commercial society is a task that confronts not just the LDP but the current system in its entirety. On this point the JSP has conducted a public relations campaign based on an awareness of a lack of substance, but this policy works instead to infuse the people with a vague sense of expectation.

Yayama: But has not public opinion moved toward embracing some kind of new tax in preparation for the needs of the coming aging society and acknowledging that it is impossible to make those preparations if there are no new taxes, given these results of the upper house elections and that the JSP, which hitherto had focused exclusively on the wickedness of the consumption tax, has reached the point at which it finally recognizes the need for finding substitute sources of revenue and tax reform, and has begun discussing these issues?

Watanabe: This kind of complex problem should not be left to the experts; they will fail. The ones who made money hand over fist during the rapid appreciation in the value of the yen—when the yen's value against the dollar doubled in a short period of time—were the distributors, so they should have been told that if they kept price levels at or below those prevailing before the appreciation of the yen, then they would be able to raise prices enough to cover the cost of the consumption tax; this is the "internal tax" method.

Yayama: That would have been politically shrewd.

Watanabe: Either way, the distribution industry is earning so much money off the appreciation of the yen that they can hardly stop laughing, so it would have been all right to have them cough up some of that money via the consumption tax. But the idea of swinging a big hatchet like that did not enter into the thinking of the experts, and it remains an option that will not arise so long as we depend on the experts.

LDP Will Not Split Up Even With Big Loss in General Election

[Inakaki] Many of the LDP members running for election represent urban areas. Not all of them have their base of support solely among the mass of small shopkeepers, so I expect that they were strongly in favor of instituting an internal tax. Also, they are in favor of lowering the price of rice, but they lose out to strong opposition from the Ministry of Agriculture, Forestry and Fisheries. The end result is that the consumer's dissatisfactions are in no way redressed. Moreover, most LDP party resolutions are made in closed-door discussions and behind-the-scenes arm-twisting, so consumers no longer know if there are representatives inside the LDP who take their side. I think that splitting the LDP into an urban LDP and a rural LDP, or a party of subsidy advocates and free trade advocates, might easily appeal to the people.

Iida: I think so, too. The LDP's monopoly on power has continued for 40 years, and people get tired of it no matter how many good things the party has done. I think it would be very good if the LDP split into two parties and there was a realignment of the political landscape, with a change of the party in power conducted smoothly.

Yayama: The LDP will never split. Having come this far together, there is a strong feeling against moving into temporary accommodations at this late date.

Iida: I don't think the LDP can say for certain that it won't split, if it loses heavily in the general election.

Sakaiya: The LDP's major defeat was due to the previously mentioned trio of problems, like the consumption tax; in the current state of detente, such a defeat has no connection with the security of the country even if the political situation at home is a little unstable. Also, there was a subconscious level at work here: People thought the upper house elections might be a good occasion to put the fear of God into the high-handed LDP.

Part III

What Can Kaifu Government Accomplish?; Do Not Substitute Personal Obligations for Matters of State

[Inakaki] Whether or not there will be a swing back toward the LDP in the upper house elections depends on what the Kaifu administration, which has assumed power until dissolution of the Diet, can actually accomplish. It would have been better in the end to have a prime minister with a new and forceful personality, but Prime Minister Kaifu has an air about him of a charming little child doted upon by his grandfather.

Watanabe: The presidential election really should have been conducted with the participation of all party members. Kaifu has been set up as Takeshita's puppet, like in a newspaper comic strip.

Yayama: This is literally Takeshita's administration by remote control. Government by remote control has continued ever since Kakuei Tanaka faltered because of the Lockheed scandal and became a kingmaker, but Tanaka had his own brand of political ideals that he tried to realize through remote control of the government. But Takeshita, since inheriting the Nakasone faction, is bent on achieving power by remote control for the sake of power alone.

Watanabe: In essence, Takeshita wanted to carry out an unspoken understanding he had when he became prime minister that he would turn power over to Abe. There is no doubt that a matter of personal obligation was substituted for matters of state.

Yayama: That's not good. They should have gotten away from Takeshita's personal intentions and thought seriously about who would be good for reviving the LDP, they should have thought seriously about some method—any method, such as a primary—in which all party members participated. But the matter was given no thought, and Kaifu ended up subject to Takeshita's remote control just like Former Prime Minister Uno.

But no doubt Prime Minister Kaifu himself is determined to avoid making the same mistake as Uno. Takeshita probably wants to hold the lower house elections under President Kaifu; another major defeat would at last serve to completely absolve the party of the Recruit scandal, a defeat for which Takeshita would make Kaifu responsible and have him resign, leaving Abe to succeed to the office of prime minister. But I think Kaifu wants no part of that plan, and is bent on weathering the lower house elections under his own power and serving another 2 years. So right now he is probably searching high and low for some way to avoid defeat in the lower house elections.

Iida: I have the feeling that, in reality, there is nothing he can do.

Watanabe: Couldn't he take a lesson from the emperor's visits nationwide right after the end of the war and make street corner speeches in every village and town across the country?

Yayama: Compared to Doi, Prime Minister Kaifu's advantages are his speaking abilities and the fact that he has a family. He could take advantage of these strengths and make the rounds of the nursing homes and welfare facilities with his wife, explaining that the consumption tax is necessary to strengthen the foundations of the welfare society.

This is an age of images; written explanations have little efficacy. If the prime minister and his wife together make the rounds of the nursing homes, television will follow them. Even a 30-second spot broadcast is effective.

[Inakaki] Won't the newscasters attach strange comments to such clips?

Yayama: It does not matter if they say he is trying to score points with the voters or some such thing. It is enough that viewers see he is out doing something with serious intent.

Watanabe: Instead of standing on street corners and greeting the public at large the way Takeshita did, Kaifu should have the courage to go around to all the welfare facilities, visits that even the television stations must cover. All he has to do is go to the nursing homes and encourage the people there, saying, "Don't worry, just live long a long time."

Can the LDP Counter the JSP's "Ultra-Conservatism"?

Sakaiya: The LDP's failing is that it thinks it is the dominant force. It still thinks of itself only in terms of its being a reigning champion confronting a challenger. Consequently only the easiest and most colorless approaches occur to it.

Watanabe: They will have to slap Professor Doi around.

Sakaiya: The welfare of the elderly is a problem that has been referred, too often, to the experts. From what I've heard, the idea of taking the money gotten through the consumption tax and creating a welfare society is not particularly well received. Many women in particular are of the opinion that, if they are to be subject to such a tax, then it would be better to add the portion that would be collected by the tax to private old age insurance funds and let the people do what they like with it.

Iida: Their feeling is probably that they want to take care of the matter with their own resources.

Yayama: Nor can I agree to making all welfare programs public undertakings. Even now the government is practically swindling the government-managed pension plan for corporate employees, too, by changing the terms of the contract in mid-stream. It would be sued for doing that if it were a private insurance fund.

Watanabe: It would be much better to do something like making the insurance premiums paid to old age insurance funds tax deductible. Currently, however, the deductible for insurance premiums is very low.

Yayama: When I was a special correspondent in Geneva, I looked into the Swiss social insurance system. Monthly premiums had to be paid into the old age pension fund in order to qualify for a minimal pension of about 100,000 yen a month, so the system took the form of a welfare tax. Beyond that, however, those who wanted to have about 300,000 yen per month, or those who wanted to live even better and wanted 500,000 yen a month, took out private insurance. The system had two and three levels. So the Swiss Social Insurance Bureau is an outrageously small organization.

Sakaiya: What the LDP should do now is not consign every little thing to government officials but transfer as much as possible to the private sector, aim at a small government and cut expenditures drastically. They carried out administrative reform, but only to the extent of privatizing the national railways and the telephone and telegraph public corporations. They have not even begun reforming the central ministries or local governments. The economy has been good recently and the natural increase in tax revenues from the big cities like Tokyo and Osaka has grown quickly, but local governments have indulged in all sorts of wasteful schemes like buying expensive paintings and building theaters. The party's popularity declined with the introduction of new taxes like the consumption tax even though these other practices have been left undisturbed.

For the LDP to win in the lower house elections, its only option is to proclaim boldly that if the JSP forms a government the bureaucracy will reign supreme, but if they themselves win they will privatize to such-and-such an extent and spur private enterprise.

[Inakaki] Could it be that what is needed here is not fancy talk about the need for consumption tax or welfare programs for an aging society, but rather a vision that gives the people a dream?

Yayama: Elections are not won with excuses and explanations. The LDP will have to go on the offensive. The LDP took a positive approach with its plan to privatize the national railways, and that had a lot to do with its 300-seat victory in one election during the Nakasone years. At any rate, it's certain that a defensive posture will lead the LDP to a solid defeat in the lower house elections.

Watanabe: They should push ahead with construction of the linear motor car bullet train the Ministry of Finance is so half-hearted about, for example; then they can say that people will be able to go from Tokyo to Kagoshima in 3 hours. They don't have to say when the line will be completed.

Sakaiya: What the LDP has to do is give people a happy society and a proud dream. Toward that end, they have to offer a vision of a society that makes possible a multiplicity of choices. Nevertheless, the LDP continues to ingratiate itself with the JSP's line, using appeals that invite bureaucratic control such as the full range of public social welfare and the idea that the country will look after its citizens in every way.

Instead, the LDP should announce that it is going to cut taxes in half over the next 10 years, or move the capital. The central government organs strongly resist any immediate moves, so they should promise to do so 20 years from now. If the LDP doesn't have the boldness and foresight to offer that kind of long-term vision, it will be unable to counter the JSP's ultra-conservatism.

Watanabe: The LDP should promise those males who have difficulty finding someone to marry that, if they support the LDP, the LDP will greatly increase their income and give them the opportunity to live a lifestyle as good as the one in Tokyo by dispersing Tokyo's governmental functions and revitalizing the countryside. that done, these men will be able to get even the most beautiful women.

Toward Constructing a Political System That Trusts People

[Inakaki] Bearing in mind the political style of a mass society, what should Prime Minister Kaifu do in the immediate future, before the dissolution of the Diet?

Yayama: Probably the most important thing would be reducing the power of the government offices. Nakasone's policy of private initiative was nothing more than a small step in this direction, which should be carried further in an effort to reduce administration to a bare minimum. The Swiss have only seven ministries, yet they are successful in managing a first-rate state. It has become difficult for the LDP to do this because they lost their majority in the upper house, but they should set the country on this path at once, without hesitation.

Sakaiya: Democracy is founded on the politics of the untutored, conducted according to the wisdom of the untutored. So a system that takes the opinions of the untutored into account must be created. [passage omitted] To do so will require a vision of the future, of 20 years from now. Why 20 years? Because no one worries about what will happen to the authority of government offices 20 years from now: even if the capital is moved, those officials will reason that it won't effect them during their careers, so they will offer no opposition.

Also, the LDP has to trust the people more. The government officials, at least, think that if the people are left to

themselves they are bound to do something foolish, so officialdom is always wanting to interfere with and regulate them out of a sense of enlightened paternalism. The LDP should get away from that mentality and itself construct a system that trusts to the untutored and the mass of people. Then, with such a system as a foundation, I think the LDP has to switch to a more challenging political stance.

Iida: In order to accomplish that, it might be best that the LDP suffer another major defeat and then reorganize itself. Right now, the LDP itself has little real awareness of the danger it is in, so it probably cannot turn itself around at once. They rationalize: Even if they hand power to the opposition parties, they say, Japanese business firms are doing well, so the economy is in good shape; everyone knows that socialism is a failure, so there's no need to worry that the voters might go socialist.

Opposition Government's Diplomacy Would Isolate Japan

Yayama: The biggest danger of a JSP-dominated opposition government would be in the realm of foreign policy. Chairwoman Doi says she will continue the United States-Japan Security Treaty, but she also says she will strictly apply Japan's three nonnuclear principles. That being the case, there is a possibility that Japan might become another New Zealand.

New Zealand is a small country in the southern hemisphere, of little strategic importance, so even if the United States gets angry and suspends the ANZUS [Australia-New Zealand-U.S. Defense Pact] treaty the effect on the world situation is nil. If Japan were to take the same tack, however, and the Americans suspended the security treaty, the effect would be monumental. When Prime Minister Lange visited the United States after the ANZUS treaty had been suspended, the American President and secretary of defense did not even try to meet with him. The economic reaction to Prime Minister Doi not meeting with the American President would probably be catastrophic.

The United States is putting up with huge trade deficits with Japan out of a recognition that Japan is a member of the Western camp and a nation crucial to the stability of the Far East. The United States would probably cut Japan off if it became irrelevant to the East-West balance. The Europeans would also follow suit. Restrictions aimed at Japan would of course become far more strict, destroying the Japanese economy. This would only invite not mere Japan bashing but the isolation of Japan.

Sakaiya: At that time, the biggest problem will be a hardening of anti-American sentiment in Japan, making it impossible for the two nations to get back to where they were before. Even if such an attitude brings on an economic crisis, experience of the immediate prewar past shows that there is no way to restore United States-Japan relations and revive trade once that happens.

Watanabe: Such a dangerous gamble must be avoided at all costs. For that reason, Prime Minister Kaifu must work to ensure that the Japanese people are not exposed to such a gamble. The only thing he can do, even if he does not go calling on the United States, is to go to every part of Japan, attending even grandmotherly-type meetings and JSP-affiliated seminars, and spare no effort to convince people of the right course to take. If he cannot convince them, then maybe the consumption tax should be abolished for a while. It's bad accounting to destroy the country over a tax or two.

Sakaiya: Most dangerous of all is the idea that it's all right to gamble just once. Imperial General Headquarters started the Pacific war on the thinking that they did not know whether they had a chance to win the war unless they tried.

Raise High the Flag of Liberalism [Symposium closing address, by Takeshi Inagaki]

Socialism's greatest failing is the failure of a controlled economy subject to bureaucratic control. The subordination of a living economy to the centralized planning of a bureaucracy is an inherent stumbling block. It ignores the ancient fact of human self-interest. Beginning with Marx, the socialists and communists were naive and childish in their understanding of human nature.

By rejecting the evils of capitalism, socialism also crushed both the free competition that is the source of society's vitality and the market principle that guarantees the fairness of that competition. Only the ever-bloated bureaucratic structure remains. Its inefficiency and unproductivity bankrupted the economy.

The Japanese bureaucracy is without doubt the most efficient and even the most honest in the world. Even so, the bureaucrats cannot escape the rigid bureaucratic mentality. That mentality places a premium first on consolidating one's own power and expanding that power whenever the opportunity arises, and secondly on according priority to the protection of the organizations over which one has jurisdiction. The phrase "ministerial interests over the national interest" sympolizes that mentality.

As a result, the government is completely splintered along ministry and agency lines and loses the capacity for overall control. Exercise of that control is essentially the business of politics, but the governing party, the LDP, is wedded to a political system that collects campaign contributions and votes by safeguarding the interests of various separate social groups; the zoku Diet members, with their bases of power in regional party groups, and Diet committees that reproduce this splintered administration, remain dominant and adhere closely to the bureaucrats.

To these bureaucrats, the Nakasone cabinet's policy of private initiative was a nightmare. But the LDP suffered a major defeat in the upper house elections due to the Recruit incident, the imposition of a new consumption

tax by the Ministry of Finance, and the loss of confidence of the farmers in the LDP due to unsettled agricultural reform and farm import liberalization policies brought about by the resistance of the Ministry of Agriculture, Forestry and Fisheries and the interference of left-wing Diet members. The political situation has become muddled, affording the bureaucrats a favorable opportunity to recapture lost ground.

To put it another way, the LDP's tolerance of the power of the bureaucracy and the zoku Diet members closely connected to the bureaucrats destroyed the party's political agenda. Despite this, the LDP is making no vigorous moves to reflect deeply on means to regain its political leadership. Instead, the LDP is so afraid of suffering a crushing defeat in a general election that it has bent over backwards to strengthen big government-initiated protective policies, like expanding social welfare programs and reconsidering agricultural production reductions.

At that rate, there will be no revival of the LDP and no return of the people's trust in the LDP.

What the LDP has to do now is stick with liberalism and proceed to relax restrictions and open the Japanese market to the outside. If the LDP makes a serious effort to show that there is no other way to maintain the vitality of the Japanese economy, to improve agriculture and avoid isolating the country internationally, they are certain to have the understanding of the people.

As has been repeatedly stressed throughout this symposium, what the LDP needs now is decisiveness. A defensive stance will only lead them to defeat. Not only is there a danger that the bureaucracy will grow more and more powerful, restrictions on the activities of business be strengthened and the economy slow down if the opposition parties form a government led by the JSP, neither the LDP nor Japan have a future if the LDP does not take up the position, loud and clear, that there is a strong possibility that such a government would put an end to market liberalization and isolate Japan internationally through inflexible diplomacy.

Paper Criticizes JSP Contradictions on Korea

OW2712132589 Tokyo THE DAILY YOMIURI in English 26 Dec 89 p 6—FOR OFFICIAL USE ONLY

[YOMIURI SHIMBUN 25 December editorial: "JSP 'Acknowledges' South Korea"]

[Text] We find Japan Socialist Party [JSP] Secretary General Tsuruo Yamaguchi's comments upon arriving at Kimpo Airport in Seoul last Thursday odd. Leading the JSP's first official delegation to Seoul, Yamaguchi said "we acknowledge that the Republic of Korea exists as a country."

Even primary school children know that South Korea exists as a country. The JSP's "acknowledgment" comes 25 years after the Basic Japan-South Korea Treaty came into effect and reflects the unrealistic nature of the party's past policies.

The JSP's delegation in South Korea is indeed a "historic" step forward, but whether it signals a dramatic shift in the party's policy toward the Korean Peninsula remains to be seen.

When applying for the delegation members' visas, the JSP sent a memorandum to the South Korean government stating its intention to meet with representatives of "the Reunification Democratic Party (of South Korea) about promoting Japan-South Korea relations within the framework of the Basic Japan-South Korea Treaty." This roundabout expression might be interpreted to mean that the JSP is reversing its long-standing opposition to the treaty.

Later at Kimpo Airport, however, Yamaguchi also said that "when our party takes the reins of government, we will maintain the Basic Japan-South Korea Treaty as a way of providing continuity in diplomacy," indicating no substantial policy change. It suggests that the JSP will postpone any decision about the treaty until it takes over the government.

That statement likely infuriated the South Korean government. At the last minute, a scheduled meeting between Prime Minister Kang Yong-hun and members of the delegation was canceled.

It seems unlikely that the JSP will be able to maintain balanced relations with both North and South Korea if its representatives make such contradictory and ambiguous statements.

JSP policies would prove more productive if the "special" status afforded to North Korea, with which the party has long maintained close ties, was changed.

In the past, the JSP has played an important role by serving as a conduit between North Korea and the Japanese government. Most of the time, however, it served less as go-between and more as a mouthpiece for the North.

While praising the sweeping democratic reforms in East Europe, the JSP has defended North Korea's policies, which include travel regulations that prevent its citizens not only from traveling abroad, but also regulate domestic journeys.

When JSP Chairwoman Takako Doi visited North Korea to meet with leaders in Pyongyang, she described the country as being a wonderful socialist state.

How can the JSP explain its policy contradictions? If it acknowledges South Korea's existence, commonly accepted by the rest of the world, it should also recognize international criticism of North Korea.

JCP Protests U.S. 'Aggression' in Panama

OW2212132589 Tokyo JPS in English 0945 GMT 22 Dec 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Dec 22 JPS—The Central Committee of the Japanese Communist Party [JCP] on December 22 wired a protest to U.S. President George Bush on the U.S. military aggression against Panama, saying,

"The Central Committee of the Japanese Communist Party files a strong protest to you over the military aggression against Panama by the U.S. forces launched on December 22 on your orders.

The military operation is plainly an act of aggression that openly tramples on the sovereignty of the independent state of Panama. Your statement about reasons for the military operation, that it was for the protection of the safety of the lives of Americans there, the recovery of democratic process, and to sustain the treaty on the Panama Canal is stereo-type of the sophistry used by any aggressor in an attempt to justify an act of aggression. Such sophistry cannot deceive world opinion. As regards your pretext about the recovery of democratic process, it is clear that no one can justify the aggression or intervention by the U.S. of Panama, whatever question may exist in the domestic system in Panama. No one has the right to intervene on any such pretext. Still less can anyone justify this outrage of military aggression.

The CC of the JCP strongly demands that the U.S. Government immediately end this grave act of aggression, that openly violates the right to national self-determination, and immediately withdraw all its forces of aggression from Panama. The JCP CC renews its demand that the U.S. Government at once stop all acts of intervention that violate the rights to national self-determination of the peoples of Nicaragua, El Salvador and other countries in Latin America and the Caribbean area.

JCP Says Okinawa Threatened by U.S. Radar System

OW2312112089 Tokyo JPS in English 0921 GMT 23 Dec 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Dec 23 JPS—It was revealed that a radar system poses a potential risk to cause detonation by its powerful electric wave which could trigger weapons and other sensible systems carried on aircraft. Chuji Chinen, Ginowan City Assembly member from the Japanese Communist Party [JCP], in the general question on December 21, introduced an article which reveals this fact. He pointed out that a radar is built in the U.S. military satellite station behind Futenma Shrine and it is worried about that the radar poses a risk to aircraft which land at Futenma Air Base of the U.S. Marine Corps.

The article was carried on the November 24 issue of PACIFIC STARS AND STRIPES, organ of the U.S. Pacific forces. It said that the U.S. Air Force has concluded that a powerful radar system, 3.2 kilometer far from the Robins Air Forces Base in central Georgia, poses a potential risk to virtually all military aircraft landing at the base. According to this article, this conclusion was made public by Sen. Sam Nunn, the Senate Armed Services Committee chairman. The article also reported that since 1987, the radar system has been turning off the north face of the radar every time a plane carrying an externally mounted electroexplosive device lands at Robins.

Chinen emphasized that many radar communication bases exist in Okinawa, and it is necessary to assess the danger of serious accidents caused by detonation.

JCP Chairman Welcomes Romanian People's Victory

OW2312113489 Tokyo JPS in English 0936 GMT 23 Dec 89—FOR OFFICIAL USE ONLY

[Text] Tokyo Dec 23 JPS—On the collapse of the Ceausescu administration before the people's call for freedom and democracy in the face of military suppression, Tetsuzo Fuwa, chairman of the Presidium of the Japanese Communist Party [JCP] issued a statement welcoming the people's victory. The statement said:

1. The Ceausescu administration that forced the bloody armed crackdown on the people's mass action for democratization, collapsed on December 22 amid the Romanian people's massive protest action. The Japanese Communist Party hails this as a victory of the sovereign people of Romania.

This shows the power of the anger of the people at the serious mis-government, contrary to the position of socialist democracy. It is an historical necessity for any administration that suppresses the people's call for freedom and democracy by force of arms, to fall.

2. The JCP has repeatedly warned that attempts to sustain it power by force those in whom the people have lost their trust, cannot be condoned, because it is contrary to reason in social progress and democracy, as well as the great cause of scientific socialism. On the recent crackdown incident, the JCP made a severe protest to the Romanian Communist Party and the Romanian Government, strongly demanding an immediate end to the armed crackdown on the people.

3. Having won this important advance, the task before the Romanian people is to open their future in an independent and democratic way as masters of the country, rejecting all interference and intervention from outside.

*** Problems of Refugees, Illegal Aliens Examined**

*** Questioning Media**

902B0027A Kyoto VOICE in Japanese
Nov 89 pp 244-249—FOR OFFICIAL USE ONLY

[Article by Commentator Susumu Nishibe: "Be Skeptical of What Media Says"]

[Excerpt] [Passage omitted] Japan is facing a dilemma of some magnitude. The secret of understanding the refugee problem lies in knowing this. As long as we make a display of our economic power as far stronger than that of other countries, refugees, genuine or phony, will descend upon us. It is unreasonable for us to tell them not to come when they have heard that opportunity abounds for them to be earning 30 times, or if lucky, 100 times, as much money as in the countries there they came. Although maintenance of the policy of "defense by closing doors to refugees" should be pursued zealously, it is reasonable to suppose that a gradual increase in the number of refugees in this country is a certainty. Consequently, however, hard we may try to summon up our cosmopolitanism, or humanism, the degree of racism in our social system will become more intensified. Although we do feel strongly about such racism, most Japanese would be busy deploring the fact that Japan had become a difficult and unpleasant place to live. In other words, at the top of its current economic prosperity, the country is frightened by forebodings of misery, pain, and gloom which might be invited by this very affluence.

Put in terms of simple logic, the only way available for Japan to escape from this dilemma may push the country into poverty. If this sounds like an exaggeration, we can state it in another way, namely, when other countries are suffering from the effects of economic depression, unemployment, and even starvation, we are willing to take steps which will create economic adversities for ourselves. It is unreasonable to drive away those approaching us for the purpose of sharing our riches so that we alone might enjoy more comfortable lives. Unless we can show, to even a small degree, that we, too, are suffering from a poor economy, the policy of "defense by closing a country" would not go very far. For instance, there is, then, a distinct possibility that many Japanese residing overseas might be exposed to danger of retaliation.

Since we cannot expect a political party to come up with an unprecedented policy of creating economic adversities by its own will and actions, my proposal may be labeled as nothing more than "a sentimental argument." However, if Japan should accept, with cool composure, the protectionist trade policy which other countries have adopted with our country as the target, or, if we were to initiate restraints on our own exports, these actions would create economic adversities. From time to time, I had written for this journal on "recommending economic depression," which considers these possible actions, but no one responded to my articles. Apparently, the Japanese do not want to face economic adversities. I believe that Francis Bacon's maxim, [to the effect] that there is always an element of adversity in prosperity and an element of prosperity in adversity, provides an important suggestion as to Japan's future course of action regarding the current refugee problem.

Another measure, although this may remain merely as a sentimental discussion, is to build so-called "separate facilities" in Japan. "Separate facilities" are like clubs. In other words, my suggestion would be to establish a club which accepts foreign laborers and a club which excludes them. Certain areas would become international zones and the remaining areas, nationalized zones. In this case, the word, "club" would mean a region. Certain regions would become international zones while others would be designated as Japanese zones. It no longer would become a selection of one of two choices for the Japanese, namely, a lifetime surrounded by only their own countrymen, or spending their life in touch with foreigners. This arrangement would enable the Japanese to work in an internationalized zone during a certain period of their lives and to live in a Japanese zone at other times.

However, those who oscillate between exclusionism and the integration principle would put up strong resistance out of fear of living in a racially mixed community if they were to be told that the area where they currently reside would become an international zone, and, if they were to be told that their area would become a Japanese zone excluding foreigners, they would violently oppose to the arrangement out of sudden curiosity regarding foreigners. I cannot help but admit that my second plan, therefore, is not very realistic.

Since there appears to be no ready solution at hand for some time to come, the only thing we can do at present is to investigate and experiment with various alternative measures, one at a time, using the trial-and-error method. This is reasonable in that we have never encountered a refugee problem before, and that no one can handle such a problem skillfully when he does not have any relevant experience whatsoever. Although people may say that my suggestion is merely expedient and that it comes too late, I feel that a debate on the refugee issue is necessary, and, for this reason, I consider Nishibe's paper appropriate material for debate.

Although we may have a debater who maintains that since, in ancient times, we already had an international exchange of peoples, through which a kind of integrated culture was created, we now should face the current refugee problem with much optimism and take this opportunity to work on the further integration of foreign cultures into our own, his contention is too hazy. Because Japanese sensitivity and reason are bound by the Japanese framework and base, we can only vaguely understand what the suggested integrated culture, which would go beyond the Japanese culture, would be. I do not necessarily reject the idea of a "sentimental debate"

which speaks of an integrated culture as a kind of hazy image; however, to present such a debate as a practical policy is closer to spinning a tale than to acting boldly.

Also, I would classify those who support the importation of foreign laborers because of labor shortages in their own particular businesses, as self-seeking managers. Society is not composed of business alone; there are communities, and the problem of foreign laborers would concern those communities deeply. In addition, businesses will lay off foreign workers if their companies have excess workers, and, from that point on, foreign workers would become the problem of those communities. The public, therefore, should not place much credence in whatever these business owners/managers might say on the subject.

As for myself, a state of confusion never overly unsettles me. Should Japan become a nation of racial stratification, I feel that I would have the capacity of finding this even enjoyable. However, the refugee problem is a national problem, in which personal ideas, per se, have no place. Needless to say, one should not label himself as a one world federationalist, pacifist, and humanist if he cannot put these ideals into practice.

* Positive Policy Change

902B0027A Tokyo KANKAI in Japanese
Nov 89 pp 158-164—FOR OFFICIAL USE ONLY

[Article by Ryoichi Hamada: "Deal With Foreign Workers Problem by Positive Policy Change"]

[Excerpt] [Passage omitted] Without separating the foreign workers problem from the refugee issue, the debate is still continuing today. In this situation, it may be difficult to arrive at a consensus; however, we should recognize the fact that these two issues relate to completely different problems. It is out of the question that a certain business be allowed to hire, on an indiscriminate basis, shipwrecked foreign workers who have drifted onto Japanese shores, thus violating the international social order simply because that business currently is hampered by labor shortages.

One often sees in the readers' columns of newspapers the emotional assertion questioning, "Is it right to force those Chinese go back to China? They spent a great deal of money and risked their lives to reach Japan. Should we not negotiate with the Chinese Government and permit those Chinese to work here on a temporary basis?. During World War II, we caused a great deal of damage to the Chinese. This is a good opportunity for the redemption of our sins."

However, what we need to do here is not to let our emotions take command. What is necessary and desirable is a calm and yet resolute attitude in dealing with the problem so that foreign countries will not point their fingers at us.

Let us consider the question of whether we should broaden our framework for accepting foreign workers by making the refugee problem a separate issue. The "pro-acceptance of foreign workers" stand prevalent in the construction and restaurant industries may be summarized as follows: First of all, at present, these industries clearly are faced with labor shortages, and the prospects of securing Japanese workers in these industries are extremely poor. Furthermore, with the advent of an aging society, utilization of foreign workers is essential to the solution of the chronic labor shortage problem.

The arguments supporting the use of foreign labor to meet the needs of the industries from an international viewpoint are: (1) The flow of the labor force from poor countries to richer countries is only natural. The world's major economic powers, like Japan, should accept foreign workers, thereby sharing their prosperity with others; (2) People's freedom cannot be separated from the general trend toward internationalization, and we should, therefore, gradually open our doors to the outside world; and (3) Only by coming in contact with foreigners and alien cultures, can we contribute to the internationalization of our society.

I flatly refuse to endorse these arguments. The points made in the "passive acceptance theory," when closely examined, may be stated as follows: First of all, as a result of importing a large number of menial foreign workers, the domestic workers' working conditions involving wages and hours, will decline; and unemployment, naturally, will rise. One argument is that the labor shortage problem in certain industries should not be judged by labor costs alone but should be approached as a long-term social problem.

Secondly, what about the more immediate social problem arising if and when a large number of foreign workers should settle down in Japan, becoming a minority race and creating ghettos.

The newspaper is full of stories about the racial confrontations occurring at refugee reception centers. Faced with labor shortages, West Germany had imported Turkish workers en masse for a limited period of time. However, after the stipulated term had expired, the majority of workers did not leave the country; and, settled in Germany creating slums of the worst kind. What kind of policy West Germany will establish to deal with the problems of these workers' education, language, and nationality, is being carefully watched by the rest of the world.

The Japanese Government has yet to formulate a cohesive policy concerning the acceptance of foreign workers. Concerned with international criticism, the Ministry of Foreign Affairs is definitely supportive of acceptance of foreign workers on a more extensive scale, and the Ministry of International Trade and industry, from the standpoint of solving the labor shortages in medium-sized and small businesses, supports the "open door" policy. Judging from speeches made by Ministers of Justice and Labor at the cabinet meeting previously

referred to, both of these ministries are inclined to maintain a negative approach, however.

In this situation, what kinds of measures should Japan adopt? According to the statistics of the Ministry of Justice, the number of illegal workers in the year 1988 totaled 14,314; however, unofficial figures regarding the number of foreign workers currently residing in Japan is at least 150,000, and might go even as high as 200,000. Among these, those with expired visas numbers 100,000, which can be broken down as from 40,000 to 50,000 students, over 21,000 trainees, and 40,000 with show business visas. If any number of people among the more than 2 million with tourists visas have decided to remain in Japan, they will join the ranks of illegal workers. These figures tell us clearly that the problem of illegal workers already exists, even before we begin to discuss the plight of massive numbers of refugees arriving on our shores and to argue the pros and the cons of enlarging the immigration law framework, allowing them to enter our country legally. In order to solve these problems, we hope that the government will take immediate steps to establish a basic policy designed to deal with the problem of foreign workers. From the standpoint of solving labor shortages, it has become necessary to change government policy to the end that they can accept not only technicians but unskilled workers, as well, by extending the basis for acceptance, thereby removing the cause for creating a category of illegal workers.

However, in such a case, we should make it a rule that their stay in Japan must be limited to a period of 2 or 3 years; and that, once they have acquired technical skills, they then will be required to return home. Moreover, if feasible, it would be best to establish a framework of acceptance for nationals of each country. As for their wages, hours, and other working conditions, needless to say, the labor standards law stipulated for Japanese workers will apply. I feel that the much-talked-about social, cultural, and racial problems revolving around foreign workers must be examined after the rules have been worked out. Needless to say those who wish to become a naturalized citizen of Japan should be required to learn their civic duties as Japanese citizens, to accept the obligation of loyalty to the adopted country, and to acquire at least an acceptable amount of knowledge of Japanese language and culture.

A former high official of the Reagan administration once criticized Japan by stating, "The Japanese cannot surpass the United States economically if it pursues a closed-door policy toward immigrants. In the areas of housing and working conditions, the United States is 20 to 40 years ahead of Japan." However, he should recognize the fact [illegible] the makeup of Japan and that of the United States, after all, is very different. Even if they fully realize all of the factors, those poor Asian workers will still head for prosperous Japan. Whether Japan is capable of treating them fairly and with responsibility is a question yet to be answered. This problem may very well pose a testing ground for Japan as a major world power.

Firms Cooperate To Develop Neurocomputer

OW3112042389 Tokyo THE JAPAN TIMES in English 30 Dec 89 p 7—*FOR OFFICIAL USE ONLY*

[Text] Dai-Ichi Kangyo Bank has joined with Fujitsu to develop a neurocomputer to make banking operations more efficient.

A Dai-Ichi Kangyo official said the neurocomputer will enable better investment analysis of foreign exchange transactions and stock price movements, and enhance critical evaluation of new issues during futures trading.

The official said said the neurocomputer will definitely advance the liberalization of Japan's financial markets.

A neurocomputer tries to mimic the human mind with the processing capability of a supercomputer. Small models of these computers have been developed as work stations, but they still lack the logical capabilities to imitate the intricate human thought process.

The bank's decision to introduce a neurocomputer into its future banking operations reflects the recent trend of the computer, semiconductor, machinery, construction and securities industries to adopt supercomputers to improve efficiency and cut costs.